



Chairman's statement

As-Salaamu Alaikum

Overview

I am honoured to have been appointed Chairman of the bank in March 2005 and I look forward to my tenure. I pay tribute to my predecessor, Abdulelah Sabbahi, later in this statement but I wish to refer now to his predictions in the previous annual report for the 2004 financial year. He indicated then that, while South Africa was well positioned to achieve sound growth, Albaraka Bank would be unlikely to enjoy any major benefits in 2004 since the bank's focus would be on restructuring itself to participate and benefit more fully from 2005 onwards.

Here, at the start of the 2005 year, those predictions have proved to be largely correct. South Africa has enjoyed a remarkable year in many spheres and particularly in respect of economic performance. The level of economic growth has accelerated and both the Johannesburg Stock Exchange and the property market have reflected this strength and investors have enjoyed the buoyant conditions.

Furthermore, this strong performance has been achieved during a period of mixed fortunes in international affairs and South Africa's success has been largely motivated by its ability to forge new opportunities for itself.

The strength of the rand has not been conducive to exports, particularly in both the resource-based and manufacturing sectors. However, coupled with increased domestic liquidity, it has favoured imports and the retail sector has enjoyed substantial growth. Annual growth in retail sales grew progressively during 2004 averaging 10,3% over the year while the equivalent figure for the 2003 year was 4,9%.

In this environment, the South African banking sector has generally performed well over the year. The reduction in revenue flowing from the lowering of interest rates was more than balanced by enhanced economic activity which resulted in increased advances and higher fee income while reducing bad debt exposure.

Albaraka Bank continued to grow during the year under review, with total assets topping the R1 billion mark for the first time and total income improving by 30,6%. The results are discussed in more detail in the Chief Executive's Review, which follows this statement.

Chief Executive

I am pleased to announce that Shabir Chohan was appointed Chief Executive of Albaraka Bank South Africa with effect from 13 December 2004 and the Board has all confidence in his abilities and experience in taking Albaraka to greater heights.

Thys McLean has fulfilled the position of Acting Chief Executive in the period between the retirement of the previous Chief Executive and the appointment of Shabir Chohan as the new Chief Executive. I extend my sincere thanks and appreciation for the able and competent manner in which Thys has carried out his responsibilities.

Corporate governance and Shari'ah compliance

The Board's comprehensive assessment, conducted in terms of the King 2 requirements, was completed during the year and most of the recommendations have been implemented.

The Financial Intelligence Centre Act (FICA) has proved to be a major focal point, requiring substantial resources to meet the demands. In essence the Act is aimed at preventing illegitimately gained money from being laundered and it imposes stringent responsibilities on banks to know their customers and also to identify and report potential suspicious transactions. We are introducing and implementing an integrated IT system to facilitate identification of transactions and customers in accordance with FICA requirements.

Management continues to monitor the sources of revenues received from the investment of surplus funds, and in the process, to ensure that transactions are in compliance with Shari'ah requirements and that the resultant revenues have a positive effect on returns to depositors.

A committee created during the year is ensuring that the bank will be ready to comply with the requirements of Basel II in line with the requirements of the Reserve Bank. The introduction of the Framework is significantly influencing management's approach to risk.

Capital adequacy and dividends

In previous Chairman's statements, reference has been made to the high priority accorded to raising the bank's capital resources to adequate levels and I anticipate that this will occur during 2005.

While the bank's net income reflects a significant improvement over the previous year, the Board did not consider it appropriate to declare a dividend and has opted instead to retain the full amount of the net income to help fund future growth and expansion. This is indicative of the Board's resolve to make maximum use of all available resources to drive expansion and growth.

Prospects

Informed opinion appears to be divided on such issues as exchange rates – particularly the rand vis-a-vis the US dollar – the oil and gold prices and the trend in interest rates. Significant and unforeseen variances in any of these or other critical factors could have a significant impact on the economic outlook. However, all things remaining equal, a continuing favourable trend in economic conditions seems likely, in which event, the bank's performance should improve further in the year ahead. The restructuring measures implemented during 2004 should begin to bear fruit in 2005 while the anticipated injection of new capital, as indicated earlier, will assist in asset growth and in exploring avenues to generate additional non-funding income.

Appreciation

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

A number of new developments and demanding activities occurred during the past year which were made possible only through the efforts and selfless devotion of many people. I extend my gratitude and thanks to my predecessor, Abdulelah Sabbahi. I would also like to thank outgoing director Ebrahim Varachia for his services and welcome Mohamed Sadeck Paruk, Shabir Chohan and Jacques Courtiade to the Board as well as Professor Shaïda Cassim as an advisor to the Board.

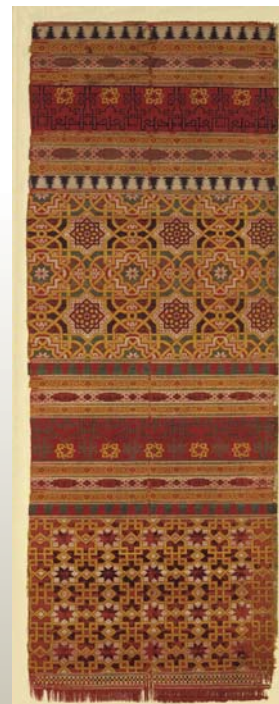
To the many stakeholders who have contributed to our success, I particularly would like to acknowledge the following :

- My co-directors, whose guidance and support is invaluable.
- Our customers and our shareholders at the bank.
- The management and staff for their continuing dedication and loyalty.
- The directors and management of the Dallah Al Baraka 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.

Adnan Ahmed Yousif
Chairman

Durban, 23 March 2005



Textile fragment, 8th century AH; Nasrid. The overall geometric design of the textile has close connections with architectural decoration, especially the stuccowork and wall tiles of Nasrid buildings.



Chief executive's review

As-Salaamu Alaikum

Introduction

On 13 December 2004, I was appointed Chief Executive of Albaraka Bank Limited. Having taken over from Thys McLean in his position as Acting Chief Executive, I thank him for his continuing contribution and the benefit of his great experience, which he readily affords me and my colleagues.

Results

The bank achieved an important milestone during the year under review when, for the first time, total assets have exceeded R 1 billion. While deposits grew by 18,2%, the growth of 49,9% in advances was achieved mainly as a result of a strategic decision taken during the year to utilise the bank's surplus funds for purposes of generating Shari'ah compliant income by entering into Shari'ah compliant commodity finance transactions. Taking this into account, net income before taxation increased by 42,5% to R6,9 million.

Structures and appointments

A feature of the past year has been the restructuring process. While various structures have been revised, new structures were also introduced and complemented by a number of senior appointments.

Jacques Courtiade has been appointed Financial Director with effect from 15 December 2004.

A regional manager has been appointed to oversee the bank's operations in Gauteng in order to strengthen the bank's presence in that province. The importance of the Gauteng province, which accounts for some 47% of the country's GDP, is well established and has been identified by the bank as a major growth area.

A key area for revision has been the credit division. The credit process has been centralised and reports directly to the Chief Executive.

Products and services

The South African banking sector is highly rated internationally and is highly competitive. While Albaraka services a niche market, competition is growing and management is always aware of the need to deliver the highest quality of

products and services. Within the confines of a niche market, new and existing products and services are under constant review and changes, where considered viable, are implemented.

Many new products and services, relevant to the demanding standards of the market, require substantial investment to introduce and implement on an ongoing basis. As indicated by our Chairman in his statement, it is essential to optimise the use of available capital and, indeed, to increase such resources in order to meet this challenge.

It is anticipated that this will be implemented during 2005. Both local and overseas shareholders will participate in the capital issue.

The following include products already introduced and new products which will be launched.

Futuregrowth Albaraka Equity Fund

Now in its third year, this Fund has yet again performed admirably during the year under review. Futuregrowth Albaraka added another Raging Bull Award to the collection of three won by it last year – a highly sought after distinction. This year's trophy, which was for the most consistent performing trust in the domestic general equity sector over the past three years, is annually awarded by the Association of Collective Investments – the umbrella body of the South African unit trust industry. Our policy, in tandem with our investment management partners, is to capitalise on this performance by aggressively marketing the Fund to an expanding market.

Takafol

This product, which embraces a Shari'ah compliant alternative to insurance, was successfully launched towards the end of the year and is expected to find a market increasingly attracted to its benefits.

Resources

In keeping with Albaraka's objective to keep abreast of cutting-edge technology, the bank has continued to make substantial investments in information technology. The implementation of FICA which, inter alia, requires banks to follow stringent customer identification processes and to identify and report suspicious transactions, has been a feature of the upgrade in information technology by the bank in the past year.

Expansion of Albaraka's network

The bank is evaluating all options with regard to increasing its presence in the market it serves and will continue to seek wider representation through expansion of its network and services.

Employee relations

The review and restructuring of the bank's human resources facilities continued unabated over the year under review. Employee relations is accorded a very high priority by the Board and by management, which seeks to be pro-active and participative. The creation of an employees' working group is scheduled for the current year and a new human resources manager has been appointed.

Relocation of head office

Consideration is being given to relocating the bank's head office elsewhere within the greater Durban area within the next 18 months.

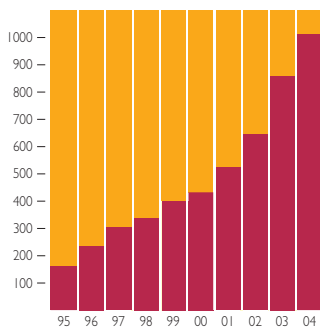
The year ahead

With the major internal restructuring completed and the focus on aggressively implementing the strategic plan, the bank is well positioned to reflect significant increase in net income in 2005.

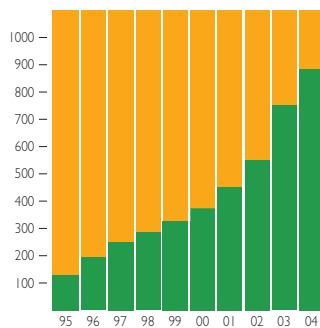
Shabir Chohan
Chief Executive

Durban, 23 March 2005

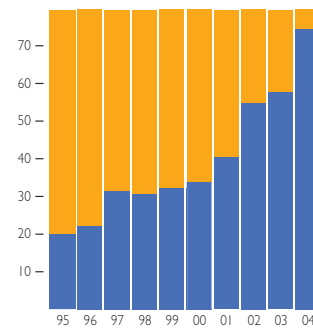
Growth in assets



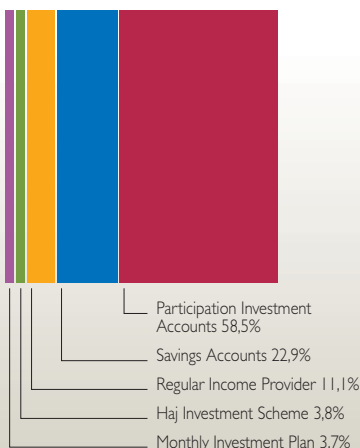
Growth in deposits



Shareholders' funds



Deposits



Advances

