

Chairman's Statement



Economic Review

The South African banking sector generally performed well in 2005, in line with the up-beat economic conditions that prevailed during the year.

Buoyant global conditions, coupled with the solid foundation laid locally through prudent macro-economic management in the past provided the basis for increased levels of economic growth in South Africa in 2005.

The brisk pace of the economy was mirrored by the growth in Gross Domestic Product of some 5% during the year, with such expansion set to continue at similar rates between 2006 and 2008.

The economic stability and the pragmatic fiscal management of past years combined to boost confidence in this country as a viable and attractive investment destination. Economic growth, assisted by an upswing in foreign investment, helped ease unemployment and investment levels are anticipated to remain vigorous in 2006.

Indications are that the acceleration in sustainable growth is a trend which will continue, in the wake of economic growth outstripping expectations in 2005. The general economic position strongly supports an expansionary stance. This augers well for further increases in foreign investment in this country and creates growth opportunities for investors in our markets.

Against the background of an upbeat international economy, and coming off the back of a most positive year domestically, the future South African economic outlook is considered most favourable and more promising than at any time in the past four decades.

Performance

The bank set itself challenging financial targets and business objectives in line with the Albaraka Banking Group's international strategy.

In this regard, it is most pleasing to report that the emphasis placed on utilising surplus funds more effectively by investing in Shari'ah-compliant equity finance transactions has resulted in net income before taxation increasing by 33,9% in 2005.

This is particularly pleasing as such performance has assisted in our being able to consolidate the business, all components of which conform to Shari'ah principles.

Corporate Governance

The board has continued with its ongoing exercise of working to strengthen the bank's corporate governance policies and procedures, further building on the significant enhancements which were successfully introduced in 2004.

I am also able to confirm that the board has once again conducted an assessment to determine its overall level of effectiveness during the review period.

The outcome of this assessment proved most positive and certainly augers well for the future. In keeping with Albaraka's commitment to good governance, an evaluation was also conducted in respect of all the board committees, the results of which will be utilised to enhance the functioning of our committees going forward.

During the period under review the bank committed significant internal and external resources in continuing to ensure compliance with the Financial Intelligence Centre Act (FICA) and the guiding principles contained therein.

Fundamentally, FICA sets out to effectively counter money laundering activities. In view of this, we have developed and implemented a range of procedures for the efficient identification, reporting of suspicious or unusual transactions and the freezing of non-FICA-compliant client accounts in line with the requirements of the Act.

Chairman's Statement (Continued)

The bank also became a registered financial services provider in terms of the provisions of the recently introduced Financial Advisory and Intermediary Services Act (the FAIS Act).

In line with the requirements of the South African Reserve Bank, we ensured significant progress towards compliance with Basel II. In this regard, the bank has adopted a phased approach to implementing the necessary changes in reporting structures, as set out in Basel II.

Importantly, the bank is working towards introducing a pilot run during the course of 2006, leading to a parallel system in 2007 and full implementation of and compliance with Basel II in 2008.

Shari'ah Banking

I am greatly encouraged by the acceptance and growth of the Islamic banking market in South Africa and we will, therefore, continue to strengthen the implementation of Shari'ah principles as regards our business operations.

It is most pleasing that our bank is now a member of the Bahrain-based Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) and we conform with the Shari'ah standards of this esteemed institution, in common with other leading Islamic banks and institutions throughout the world.

Indeed, we have also benefited greatly from increased interaction with our Shari'ah Supervisory Board.

Capital Adequacy

Efforts to continue raising the bank's capital resources to adequate levels received a most welcome and significant boost during the 2005 financial year

with an injection of R36,0 million in the form of share capital by both local and international investors.

Importantly, further capital injections are anticipated in 2006, which will greatly assist in positioning the bank for the further growth of its asset base into the future.

Critically, the Albaraka Banking Group is currently in the process of listing its shares on the Bahraini Stock Exchange and the anticipated growth in capital and, consequently, assets, will have a most positive effect in all group companies, including Albaraka Bank, South Africa.

Social Responsibility

In terms of its social responsibility programme, the bank has established a socio-economic development fund to support small and emerging businesses. This fund is expected to grow significantly in the years ahead and will continue to focus on fulfilling its corporate socio-economic responsibilities in keeping with national objectives in this regard. This programme is complemented by the distribution of non-Shari'ah-compliant income generated by the bank to charitable and welfare organisations.

Future Prospects

Looking to the future, I can say with confidence that 2006 is set to herald a period of sustained growth for the bank. This has been made possible as a direct result of the effects of business restructuring, enhanced performance and improved return on equity.

Clearly the restructuring of the bank's operations, embarked upon in 2005, has created dynamic new efficiencies which will enhance the delivery of our range of products and services going forward.





We have also benefited from tremendously improved productivity and business efficiencies, and it is anticipated that there will be an improvement in our return on equity, in line with pre-determined targets.

Appreciation

During the 2005 financial year we bade farewell to two of our directors, Yusuf Asmall and Abdulelah Sabbahi, as well as an invited member, Mrs Zuleikha Mayat.

I would, therefore, like to acknowledge the tremendous role played by these individuals in guiding the bank. They have most ably demonstrated their commitment to and confidence in the bank through their tireless efforts to promote growth and development.

Equally, I must thank my fellow directors, the executive management team and our members of staff for their unswerving dedication to ensuring the business success of Albaraka Bank.

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

Adnan Ahmed Yousif
Chairman

17 March 2006

Durban

Chief Executive's Review

The 2005 financial year proved challenging, though greatly rewarding and marks my first full year as Chief Executive, arising from my appointment in December 2004.

Financial Performance

The bank achieved net income before taxation of R10,2 million, against R7,6 million the previous year, representing a most gratifying 33,9% growth and is indicative of the fact that the growth momentum we have established is being maintained and – indeed – enhanced.

Importantly too, total assets again showed significant growth to R1,2 billion by financial year-end. Deposits grew by 13,4% to R1,0 billion, while advances reflected growth of 20,0% over 2004.

Products and Services

The South African banking sector is very competitive and, for us to remain ahead in such a stringent operating environment, requires our constant attention to product and service design and offering.

Although we service a niche market, Albaraka Bank is certainly not immune to competitive pressures. Accordingly, we invest significantly in reviewing and revising our range of products and services so as to remain at the leading edge of innovative product design to our growing client base.

Futuregrowth Albaraka Equity Fund:

This multiple award winning unit trust product delivered exceptional performance during the review period, topping the R500 million mark in February 2006.

This Shari'ah-compliant unit trust fund has – in conjunction with our investment partners – been vigorously and widely promoted during the review period, as one of

the most consistent performers in South Africa's general equity sector in recent years. Our marketing endeavours in this regard have greatly assisted in maximising focus on and investment in this fund.

Internet Banking:

Recognising the growing importance of internet banking to clients in today's financial services environment, we committed significant information technology resources to avail our clients with this service.

Pleasingly, the first phase of our development and implementation programme was completed on schedule during 2005, opening the door to finalisation thereof during 2006.

Projects

In an effort to timeously adhere to the requirements of both the Financial Intelligence Centre Act (FICA) and the Financial Advisory and Intermediary Services Act (the FAIS Act), we implemented a series of business processes to ensure the bank's strict adherence to the terms of such legislation.

In addition, we have been actively exploring the best use of technology in order to continue the expansion of the bank and its business operations throughout the country.

Branch Representation

In line with our bank expansion policy, we successfully launched a new business operation in Durban's Musgrave Centre, taking to six the number of branches we currently operate throughout South Africa. In addition and as a direct consequence of the pleasing growth of our Lenasia Branch, outside Johannesburg,





this operation is in the process of relocating to larger premises in a new high-profile shopping complex in the area.

Importantly, too, the bank – capitalising on the acquisition of land within the Kingsmead Office Park in Durban – anticipates relocating its head office during the latter part of 2007.

Such positive operational developments reflect the potential for the further growth of the bank in future.

The Year Ahead

With our restructuring phase behind us and with our current focus on the introduction of new products, I believe the year ahead will see us realise a period of expansion for the business.

I envisage not only the expansion of our physical business infrastructure, but also expansion into new market segments with the view to significantly growing the business. This will help improve our competitiveness and assist in further growing the Islamic financial products provided to our client base.

There is no doubt that the year ahead holds exciting challenges and opportunities for the reinforcement of Albaraka Bank's leadership in Islamic banking and financing in South Africa.

Appreciation

Following a period of consolidation, the past financial year has proved an exciting and challenging period of growth and development for Albaraka Bank.

I must, therefore, express my most grateful thanks to the board, together with executive management and the staff for the unstinting support and collective effort

displayed in taking the bank forward during the 2005 financial year.

Further, I would thank our shareholders and clients for their continued support of and confidence in the bank. It would be remiss of me not to also acknowledge the tremendous support offered and direction provided by the Albaraka Banking Group during the past year. Such support has ensured that we have developed appropriate business objectives, which are in line with group strategy.

Finally and above all else, I thank Almighty Allah and pray that He will continue to guide us to future success.

Shabir Chohan
Chief Executive

17 March 2006
Durban