



Annual Financial Statements
for the year ended 31 December 2006

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Independent Auditor's Report *to the members of Albaraka Bank Limited*

Report on the financial statements

We have audited the group annual financial statements and the annual financial statements of Albaraka Bank Limited, which comprise the balance sheets at 31 December 2006 and the income statements, the statements of changes in equity and cash flow statements for the year then ended, a summary of significant accounting policies, the notes to the financial statements and other explanatory notes, and the directors' report as set out on pages 38 to 62.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

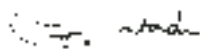
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Albaraka Bank Limited at 31 December 2006, its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

KPMG Inc., Registered Auditor.



Per J. Datadin
Chartered Accountant (SA)
Registered Auditor
Director
Durban
16 March 2007



Directors' Report

for the year ended 31 December 2006

The directors have pleasure in presenting their report for the year ended 31 December 2006.

Nature of the business

Albaraka Bank Limited is a registered bank domiciled in South Africa and has as its principal objective the operation of its business according to Islamic banking precepts.

The bank serves the public through branches in Durban, Laudium (Pretoria), Fordsburg and Lenasia (Johannesburg) and Athlone (Cape Town). The bank's parent company is the Albaraka Banking Group B.S.C, a company incorporated in the Kingdom of Bahrain. The address of its registered office is P O Box 1882, Manana, Kingdom of Bahrain.

Share capital

The authorised share capital of the company amounts to R150,0 million comprising 15 000 000 ordinary shares of R10 each. During the year the company's issued share capital was increased from R89,0 million comprising 8 900 000 ordinary shares of R10 each to R150,0 million comprising 15 000 000 ordinary shares of R10 each.

The increase in the capital of the company was to fund growth.

Financial results

The results of the company and the group for the year ended 31 December 2006 are set out on pages 40 to 62.

Dividends

On 27 October 2006 the directors declared an interim dividend of 20 cents per share amounting to R1,8 million payable to shareholders registered as at that date (2005 : Nil).

Directors

The directors of the company during the year under review were:

Non-executive

A A Yousif	(Bahraini)	Chairman
S A Randeree	(British)	
O A Suleiman	(Sudanese)	
M Youssef Baker	(Egyptian)	

Independent non-executive

F Kassim	(Sri-Lankan)	Appointed 14 July 2006
A Lambat		Appointed 24 July 2006
Adv. A B Mahomed SC		
M S Paruk		
Y M Paruk		

Executive

S A E Chohan		Chief Executive
M G McLean		Deputy Chief Executive
M J D Courtiade	(French)	Executive director

Secretary

The secretary of the company is Mr C T Breeds whose business and postal address is as follows:

Business Address	Postal Address	Registered Address
First floor, 134 Dr A B Xuma Street*, Durban, 4001	P O Box 4395, Durban, 4000	First floor, 134 Dr A B Xuma Street*, Durban, 4001

* Formerly Commercial Road

Subsidiary company

The bank has a wholly-owned subsidiary, Albaraka Properties (Proprietary) Limited, which is engaged in property owning and letting.

	2006	2005
	R	R
Shares	100	100
Amount owing	7 371 008	7 627 885
Impairment losses	(85 161)	-
	<u>7 285 947</u>	<u>7 627 985</u>

The bank's share in the loss incurred by its subsidiary amounted to R306 178 (2005 : profit R396 572).

Subsequent events

No events have occurred between the accounting date and the date of this report that materially affect the reported results and financial position of Albaraka Bank Limited and its subsidiary company.



Balance Sheets as at 31 December 2006

	Notes	Group		Company	
		2006 R'000	2005 R'000	2006 R'000	2005 R'000
Assets					
Investment properties	1	7 155	7 137	-	-
Plant and equipment	2	14 065	11 268	14 030	11 229
Investment in and amount due by subsidiary company	3			7 286	7 628
Deferred tax asset	4	2 491	3 413	2 491	3 413
Advances and other receivables	5	1 300 368	1 009 303	1 300 364	1 008 636
Cash and cash equivalents	6	146 364	148 126	146 364	148 126
Total assets		1 470 443	1 179 247	1 470 535	1 179 032
Equity and liabilities					
Share capital and premium	7	150 234	89 325	150 234	89 325
Reserves	8	37 138	29 065	37 138	28 884
Shareholders' interest		187 372	118 390	187 372	118 209
Subordinated loan	9	-	35 000	-	35 000
Deposit accounts	10	1 253 661	1 003 968	1 253 661	1 003 968
Accounts payable	11	16 334	13 413	16 426	13 379
Welfare and charitable funds	12	13 076	8 476	13 076	8 476
Total equity and liabilities		1 470 443	1 179 247	1 470 535	1 179 032
Contingent liabilities	20	50 624	33 616	50 624	33 616

Income Statements

for the year ended 31 December 2006

	Notes	Group		Company	
		2006 R'000	2005 R'000	2006 R'000	2005 R'000
Income earned from advances		90 377	81 531	90 377	81 531
Income earned from equity finance		21 336	14 166	21 336	14 166
Income paid to depositors		(62 258)	(57 092)	(62 258)	(57 092)
Net income earned		49 455	38 605	49 455	38 605
Release for credit losses	5.3	2 032	1 765	2 032	1 765
Operating income		51 487	40 370	51 487	40 370
Non-Islamic income	13	-	-	-	-
Other operating income	14	9 575	6 563	9 675	6 034
Total income		61 062	46 933	61 162	46 404
Operating expenditure	15	45 727	36 748	45 606	36 241
Profit before taxation		15 335	10 185	15 556	10 163
Taxation	16	5 481	2 734	5 521	2 648
Profit for the period		9 854	7 451	10 035	7 515
Weighted average number of shares in issue (000)		<u>9 703</u>	<u>5 809</u>		
Basic and fully diluted earnings per share (cents)	17	101,6	128,2		
Headline earnings per share (cents)	17	100,9	133,9		



Cash Flow Statements

for the year ended 31 December 2006

	Notes	Group		Company	
		2006 R'000	2005 R'000	2006 R'000	2005 R'000
Cash flow from operating activities					
Cash generated from operations	19.1	18 563	14 070	18 780	13 761
Changes in working capital	19.2	(37 921)	(47 899)	(38 049)	(47 295)
Taxation paid	19.3	(477)	(5 101)	(926)	(5 027)
Dividends paid	19.4	(1 781)	-	(1 781)	-
Net cash outflow from operating activities		(21 616)	(38 930)	(21 976)	(38 561)
Cash flow from investing activities					
Additions to investment property	19.5	(18)	(3 517)	-	-
Additions to plant and equipment	19.6	(6 615)	(2 801)	(6 615)	(2 801)
Proceeds from disposal of investment property		-	3 625	-	-
Proceeds from disposal of plant and equipment		578	53	578	53
Decrease/(increase) in investment in and amount due by subsidiary				342	(261)
Net cash outflow from investing activities		(6 055)	(2 640)	(5 695)	(3 009)
Cash flow from financing activities					
Proceeds from ordinary shares issued		61 000	36 000	61 000	36 000
Share issue expenses		(91)	(75)	(91)	(75)
Subordinated loan repaid		(35 000)	-	(35 000)	-
Net cash inflow from financing activities		25 909	35 925	25 909	35 925
Net cash outflow for the year		(1 762)	(5 645)	(1 762)	(5 645)
Cash and cash equivalents at beginning of year		148 126	153 771	148 126	153 771
Cash and cash equivalents at end of year		146 364	148 126	146 364	148 126

Statements of Changes in Shareholders' Equity

for the year ended 31 December 2006

	Share capital and premium R'000	Investment risk reserve R'000	Accumulated losses R'000	General credit risk reserve R'000	Regulatory credit risk reserve R'000	Shareholders' interest R'000
2006						
Group						
Balance at 31 December 2005	89 325	2 605	(9 796)	600	35 656	118 390
Profit for the period			9 854			9 854
Proceeds from shares issued	61 000					61 000
Share issue expenses	(91)					(91)
Dividends paid			(1 781)			(1 781)
Balance at 31 December 2006	150 234	2 605	(1 723)	600	35 656	187 372
Company						
Balance at 31 December 2005	89 325	2 605	(9 977)	600	35 656	118 209
Profit for the period			10 035			10 035
Proceeds from shares issued	61 000					61 000
Share issue expenses	(91)					(91)
Dividends paid			(1 781)			(1 781)
Balance at 31 December 2006	150 234	2 605	(1 723)	600	35 656	187 372
2005						
Group						
Balance at 31 December 2004	53 400	2 605	(17 247)	600	35 656	75 014
Profit for the period			7 451			7 451
Proceeds from shares issued	36 000					36 000
Share issue expenses	(75)					(75)
Balance at 31 December 2005	89 325	2 605	(9 796)	600	35 656	118 390
Company						
Balance at 31 December 2004	53 400	2 605	(17 492)	600	35 656	74 769
Profit for the period			7 515			7 515
Proceeds from shares issued	36 000					36 000
Share issue expenses	(75)					(75)
Balance at 31 December 2005	89 325	2 605	(9 977)	600	35 656	118 209



Accounting Policies

1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board.

2 Basis of preparation

The financial statements are presented in South African Rands, rounded to the nearest thousand. They have been prepared on the historical cost basis except that the available-for-sale financial assets and regulatory investments are stated at fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3 Basis of consolidation

Investment in subsidiary

Subsidiaries are entities controlled by the bank. Control exists when the bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the group's interest in the enterprises. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associates. Unrealised losses on transactions with associates are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

4 Investments

Financial assets are classified as being available-for-sale and are stated at carrying amount less any permanent diminution in value. Profits and losses are recognised on realisation.

5 Plant and equipment

Items of plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Property, plant and equipment, other than leasehold improvements, computer equipment and land and buildings are depreciated on a reducing balance basis. Leasehold improvements are depreciated over the term of the lease.

The estimated useful lives are as follows:

Equipment	-	10 years
Vehicles	-	5 years
Computers	-	3 years
Computer software	-	5 years
Tank containers	-	20 years

The assets' depreciation methods, residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of the asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred. Surpluses (deficits) on the disposal of property, plant and equipment are credited (charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

6 Investment properties

Investment properties are properties which are held either to earn rental income or capital appreciation or for both. Investment properties are stated at fair value. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

7 Impairment of assets

The carrying amounts of the group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate cash inflows that are largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill a recognised impairment loss is not reversed, unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and the increase relates clearly to the reversal of the effect of that specific event.

8 Credit impairments

Advances are stated after the deduction of specific and general portfolio impairments.

Specific impairments represent the quantification of actual and expected losses from separately identified non-performing advances. The amount of specific impairment raised is the amount needed to reduce the carrying value of the asset to the expected ultimate net realisable value, taking into account the financial status of the underlying client and any security in place for the advances.

In assessing the net realisable value, the expected future cash flows from advances are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the advances.



Accounting Policies (Continued)

Portfolio impairments cover losses which, although not specifically identified, are present in any portfolio of advances. The amounts required to fund the assessed level of provisions are charged to the income statement.

In addition, a general risk reserve is maintained for significant unforeseen losses and in particular, on advances not specifically identified as doubtful. The general risk reserve, net of any future taxation benefit, is reflected as investment risk reserves.

IAS 39 introduces changes to credit impairment practices and accounting by requiring such impairment to be determined on an incurred loss basis where there is objective evidence of a loss event after the initial recognition of the advance rather than on the expectation of future losses.

9 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

10 Contingencies and commitments

Transactions are classified as contingencies where the group's obligations depend on uncertain future events and principally consists of third party obligations underwritten by the bank. Items are classified as commitments where the group commits itself to future transactions that will normally result in the acquisition of an asset.

11 Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables. Non-derivative financial instruments are initially measured at cost, which includes transaction costs.

A financial instrument is recognised if the group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial assets to another party without retaining control or substantially all the risks and rewards of the assets. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the group commits itself to purchase or sell the assets.

Financial liabilities are derecognised if the group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Held-to-maturity investments

If the group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are amortised at cost.

Available-for-sale financial assets

The group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity.

When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the group manages such investments and makes purchases and sale decisions based on fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

12 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the balance sheet date and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

13 Revenue recognition

Income from Islamic activities

Income from Islamic activities comprises:

- profits attributable to the purchase and sale of moveable and immoveable property, commodities and equities, manufacturing materials and finished products. The profit is recognised over the period of each transaction either on the straight line or reducing balance basis, depending on the nature of the transaction; and
- income for services rendered is recognised when earned.

Non-Islamic income

The group does not, as a policy, engage in any activities that involve usury. However, any non-Islamic income earned by the company, due to circumstances beyond its control, is transferred to the welfare and charitable fund. Fair value gains and losses on treasury bills are regarded as non-Islamic income and are transferred to the welfare and charitable fund.

Dividends

Dividends are recognised when the right to receive payment is received.

14 Leases

The leases entered into by the group are primarily operating leases. The total payments made under the operating leases are charged to the income statement on a straight line basis over the period of the lease.



Accounting Policies *(Continued)*

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

15 Cash and cash equivalents

For the purposes of the cash flow statements, cash and cash equivalents comprises short term negotiable securities, cash and short term funds.

16 Employee benefits

Defined contribution plan

Obligations for contribution to defined contribution pension plans are recognised as an expense in the income statement as incurred.