

Notes to the Financial Statements

for the year ended 31 December 2007

1 Capital adequacy

Introduction

Albaraka Bank Limited is subject to regulatory capital adequacy requirements in terms of the Banks Act, No. 94 of 1990, as amended and Regulations relating thereto.

The bank has a wholly-owned subsidiary, which is a property owning company. The subsidiary is consolidated for accounting purposes and group annual financial statements are prepared annually but it is not consolidated for regulatory purposes in accordance with the requirements of the Banks Act and Regulations.

Funds owned by the bank are subject to South African Exchange Control Regulations.

Capital structure

The capital base of the bank provides the foundation for lending, off-balance sheet transactions and other activities. The capital adequacy of the bank is measured in terms of the Banks Act, in terms of which the bank must maintain a minimum level of capital based on its risk adjusted assets and off-balance sheet exposures.

At 31 December 2007 the capital structure of the bank was as follows:

Regulatory capital	2007	2006
	R'000	R'000
Tier 1		
Share capital	150 000	150 000
Share premium	-	234
Investment risk reserve	2 605	2 605
General credit risk reserve	600	600
Regulatory credit risk reserve	10 656	35 656
Retained income/(accumulated losses)	37 711	(1 723)
Total capital and reserves	201 572	187 372
Less: Regulatory risk reserve	10 656	35 656
Total Tier 1 capital	190 916	151 716
Tier 2		
Portfolio impairment (net of deferred tax)	5 521	4 580
Total eligible capital	196 437	156 296
Capital adequacy ratios (Tier 1 %)	15,0%	16,5%
Capital adequacy ratios (Total %)	15,4%	17,0%



The bank's capital strategy plays an important role in growing shareholder value and has contributed significantly to growth in the current year. The objective of active capital management is to:

- Enable growth in shareholder value; and
- Protect the capital base.

The bank's capital management committee is responsible for the formulation, implementation and maintenance of the bank's capital management framework in order to achieve the above objectives and operates in terms of a board-approved capital management framework. It assists the board in reviewing the bank's capital requirements and management thereof.

The bank is committed to maintaining sound capital and strong liquidity ratios.

The overall capital needs are continually reviewed to ensure that its capital base appropriately supports current and planned business and regulatory capital requirements.

In assessing the adequacy of the bank's capital to support current and future activities the group takes account of a number of factors, including:

- An assessment of growth prospects;
- Current and potential risk exposures across all the major risk types;
- Sensitivity analysis of growth assumptions;
- The ability of the bank to raise capital; and
- Peer group analysis.

At 31 December 2007, the bank's capital requirements and risk-weighted assets for credit risk as calculated in terms of the Banks Act and Regulations were as follows:

	2007 R'000	2006 R'000
Capital requirements	<u>191 388</u>	<u>138 006</u>
Risk-weighted assets	<u>1 275 921</u>	<u>920 042</u>

2 Risk management and assessment

While the board is ultimately responsible for risk management and to determine the type and level of risk which the bank is willing to accept in conducting its banking activities, the effective management of risk has been delegated to four board committees, namely, the risk committee, the audit committee, the credit committee, and the directors' affairs committee. These committees are assisted by management committees (more particularly the assets and liabilities committee (ALCO), the executive credit committee, the management risk committee and the capital management committee) to discharge their responsibilities effectively. The composition, terms of reference and delegated powers of authority of the board and management committees are set by the board and are reviewed annually. All board committees have both executive and non-executive members and report regularly to the board.

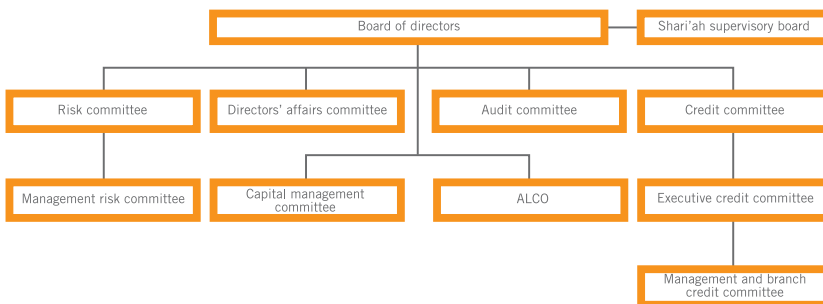
The board and management committees are responsible for developing and monitoring risk management policies and programmes in their specified areas. These policies and programmes are established to identify and analyse risks faced by the bank, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The risk management policies and programmes are reviewed regularly to reflect changes in market conditions and products offered. In addition, the bank has adopted a strategy that seeks to entrench at all levels within the bank

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

2 Risk management and assessment (continued)

a culture that is risk-management orientated. The structure and organisation of the risk management function is provided in a diagrammatic form below:



The audit committee is responsible for monitoring compliance with the risk management policies and programmes and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. The audit committee is assisted in these functions by internal audit. Internal audit undertakes regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

Major risks

The following are the major forms of risk to which the bank is exposed:

- Credit risk;
- Market risk;
- Liquidity risk;
- Profit rate risk;
- Shari'ah risk;
- Operational risk; and
- Compliance risk.

2.1 Credit risk

Credit risk refers to the potential loss that the bank could sustain as a result of counter-party default and arises principally from advances to customers and other banks and investment securities.

The bank manages its credit risk within a governance structure supported by delegated powers of authority as approved by the board. The credit approval process is graduated, whereby increasingly higher levels of authorisation are required depending on the type and value of the transactions concerned. Applications for credit may therefore be considered progressively by line management, senior and executive management, the management credit committee, the executive credit committee, the board credit committee and the board itself.

A separate credit division, reporting to the chief executive and the credit committee of the board, is responsible for the oversight of the bank's credit risk, including:



- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk;
- Limiting concentrations of exposure to counterparties and by product; and
- Developing and maintaining risk gradings in order to categorise exposures to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework is described under the section dealing with portfolio measures of risk.

Credit exposures are monitored primarily on performance. Defaulting accounts receive prompt attention. Initially they are dealt with by line management and, in instances where further degeneration occurs, they are handed over to the bank's collections and legal specialists.

Depending on the type of credit exposure, account reviews, which include the re-performance of qualitative and quantitative assessments, are conducted annually.

The credit risk management process needs to identify all risk factors to enable such risks to be quantified and their impact on the pricing or credit risk to be taken into account. Pricing for credit risk is, therefore a critical component of the risk management process.

The main risk of default by the counter-party is mitigated by means of collateral security obtained from the debtor concerned. For internal risk management and risk control purposes credit risk is measured in terms of potential loss that could be suffered, taking into account the quantum of the exposures, the realisable value of the collateral security and the value, if any, that could be placed on the sureties.

The executive and board credit committees constantly monitor the credit quality of counterparties and the exposure to them. Detailed risk reports are submitted to the aforementioned committees and also to the debtors committee on a regular basis.

Portfolio measures of credit risk

Credit loss expense is reported in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Under these rules, losses are recognised and charged to the income statement in the period when they arise.

The occurrence of actual credit losses is erratic in both timing and amount and those that arise usually relate to transactions entered into in previous accounting periods. In order to make the business accountable for any credit losses suffered in a portfolio of advances that have not yet been individually identified as impaired, a credit impairment for incurred but not reported losses is created based on historic loss and estimated emergence patterns.

Based on the performance of individual debtors and the results of assessments conducted, credit exposures are classified under five main categories, or risk gradings, which are Standard, Special Mention, Sub-standard, Doubtful and Loss.

Exposures that are current and where full repayment of the principal and profit is expected are classified under the Standard category.

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

2 Risk management and assessment (continued)

2.1 Credit risk (continued)

Exposures where evidence exists that the borrower is experiencing some difficulties that may threaten the bank's position, but where ultimate loss is not expected - but could occur if adverse conditions continue - are classified under the Special Mention category.

Exposures that show underlying, well-defined weaknesses that could lead to probable loss if not corrected are classified under the Sub-standard category. The risk that such exposures may become impaired is probable and the bank relies to a large extent on available security.

Exposures that are considered to be impaired, but are not yet considered total losses because of some pending factors that may strengthen the quality of such exposures are classified under the Doubtful category.

Exposures that are considered to be uncollectable and where the realisation of collateral and institution of legal proceedings have been unsuccessful are classified under the Loss category. These exposures are considered to be of such little value that they should no longer be included in the net assets of the bank.

Exposures that are classified under the Sub-standard, Doubtful and Loss categories are regarded as non-performing.

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The bank considers that the obligor is unlikely to pay its credit obligations to the bank, without recourse by the bank to actions such as realising security (if held); and
- The obligor is past due more than 90 days on any material credit obligation to the bank.

Credit impairments

Impairments for credit losses are made in terms of IAS 39. The bank's policy with regard to the impairment of advances is as disclosed under Accounting Policy 6.



Credit exposures

Group and company

2007	2006
R'000	R'000

Gross exposure	1 487 744	1 303 519
Impairment of advances	(13 199)	(11 279)
Net exposure	1 474 545	1 292 240

The group monitors concentrations of credit risk by geographical location, industry and product distribution.

Analysis of concentrations of credit risk

Geographical distribution of exposures

KwaZulu-Natal	954 210	924 366
Gauteng	415 662	293 610
Western Cape	117 872	85 543
Gross exposure	1 487 744	1 303 519

Industry distribution of exposures

Banks and financial institutions	166 275	383 818
Individuals	381 549	319 598
Other services	939 920	600 103
Gross exposure	1 487 744	1 303 519

Product distribution analysis

Property (Musharaka and Murabaha)	834 286	527 357
Equity finance	166 275	383 818
Instalment sales	277 245	240 762
Trade	209 938	151 558
Benevolent advances	-	24
Gross exposure	1 487 744	1 303 519

Residual contractual maturity of book

Within 1 month	- equity finance	51 594	223 478
	- other	104 224	78 277
From 1 to 3 months	- equity finance	114 681	160 340
	- other	146 159	101 672
From 3 months to 1 year		170 659	198 832
From 1 year to 5 years		585 190	419 224
More than 5 years		315 237	121 696
Gross exposure		1 487 744	1 303 519

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

2 Risk management and assessment (continued)

2.1 Credit risk (continued)

	Group and company					
	Advances to customers		Advances to banks		Total advances	
	2007	2006	2007	2006	2007	2006
	R'000	R'000	R'000	R'000	R'000	R'000
Past due and individually impaired						
Special mention category	170 753	151 682	-	-	170 753	151 682
Sub-standard category	38 533	9 533	-	-	38 533	9 533
Doubtful category	8 296	2 386	-	-	8 296	2 386
Loss category	2 343	2 659	-	-	2 343	2 659
Gross amount	219 925	166 260	-	-	219 925	166 260
Specific impairment	(5 423)	(4 829)	-	-	(5 423)	(4 829)
Carrying amount	214 502	161 431	-	-	214 502	161 431
Past due but not impaired						
Standard category	270 985	167 469	-	-	270 985	167 469
Carrying amount	270 985	167 469	-	-	270 985	167 469
Neither past due nor impaired						
Standard category	830 559	585 972	166 275	383 818	996 834	969 790
Carrying amount	830 559	585 972	166 275	383 818	996 834	969 790
Total carrying amount before portfolio impairment	1 316 046	914 872	166 275	383 818	1 482 321	1 298 690
Portfolio impairment - Standard category	(7 776)	(6 450)	-	-	(7 776)	(6 450)
Net carrying amount	1 308 270	908 422	166 275	383 818	1 474 545	1 292 240

The Bank holds collateral against advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at time of borrowing and are updated for commercial property and residential property supporting a revolving facility which are assessed on a three-year interval based on independent valuations. In other instances collateral is re-assessed when an advance is individually assessed as impaired. Collateral is generally not held over advances to banks.

	2007	2006
	R'000	R'000
Group and company		
Estimated fair value of collateral and other security enhancements	968 518	576 833



2.2 Market risk

Market risk is the risk of loss arising from movements in observable market variables, such as interest rates, exchange rates and equity markets. In addition to these and other general market risk factors, the risk of price movements specific to individual issuers of securities is considered market risk. Albaraka Bank's exposure to market risk is limited in that the bank does not trade in marketable securities other than those that it is required to hold for liquid asset purposes, which are usually held to maturity and investments in unit trusts which are held as available-for-sale.

The price risk on investment in unit trusts is subject to regular monitoring by management and the board, but is not currently significant in relation to the overall results and financial position of the group.

2.3 Liquidity risk

Liquidity risk relates to the potential inability to repay deposits, fund asset growth or to service debt or other expense payments.

Liquidity risk is managed mainly by ensuring that the funding of the bank is sourced from a wide range of retail deposits with an appropriate spread of short, medium and long-term maturities. Exposure to large deposits is strictly controlled.

ALCO monitors and reviews the maturity profiles of the bank's assets and liabilities on a regular basis to ensure that appropriate liquidity levels are maintained to meet future commitments.

The bank also has a policy of maintaining liquidity buffers (in the form of Treasury Bills and cash surpluses held on call) comfortably in excess of regulatory requirements.

2.4 Profit rate risk

The bank is not exposed to interest rate risk. In keeping with Islamic banking principles the bank does not levy interest on finance provided to borrowers, but instead earns income either by means of buying the item to be financed from the supplier and on-selling the item to the bank's clients at an agreed mark-up or by entering into arrangements with the borrower in terms of which the bank shares in the profit generated by the borrower at an agreed profit sharing ratio.

In a similar fashion, the bank's depositors do not earn interest on deposits placed with the bank, but instead earn income on their deposits based on their proportionate share of the profits earned by the bank. There is no mis-match in terms of the earning profile of depositors and that of the bank.

2.5 Shari'ah risk

Shari'ah risk relates to the possibility that the bank may enter into or conclude transactions that may not be compliant with Islamic banking principles.

It also relates to the risk of non-compliance with the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) Standards, to which the bank subscribes. In this regard, Shari'ah risk is closely linked to and embraces the following risks:

- Reputational risk;
- Profit rate risk;
- Liquidity risk; and
- Market risk.

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

2 Risk management and assessment (continued)

2.5 Shari'ah risk (continued)

Shari'ah risk is managed by monitoring, reviewing and supervising the activities of the bank to ensure that Shari'ah procedures, as prescribed by the Shari'ah Supervisory Board, are implemented and adhered to. The bank seeks to manage and minimise its exposure to Shari'ah risk by ensuring that the following measures are effectively implemented:

- The employment of adequate resources to manage and effectively mitigate, to the fullest possible extent, risk which could compromise Shari'ah compliance;
- Shari'ah reviews are carried out appropriately and timeously in accordance with Shari'ah Supervisory Board policies and plans;
- Confirmation that all profit earned from clients and profits paid to depositors are strictly in accordance with Shari'ah principles;
- Profit distribution is managed by the bank in accordance with Shari'ah guidelines, as defined by the Shari'ah Supervisory Board;
- Obtaining written Shari'ah Supervisory Board approval prior to the implementation of any new product or service and any proposed amendment to an existing bank product;
- The disposal of non-permissible income in terms of Shari'ah Supervisory Board rulings;
- The effective management and/or investment, in a Shari'ah-compliant manner, of excess liquidity; and
- The employment of a programme of continuous update by the bank of new developments, changes and amendments as regards AAOIFI Shari'ah standards.

2.6 Operational risk

Operational risk refers to those risks that do not have a direct financial impact as opposed to the pure financial risks such as liquidity risk, credit risk and profit rate risk. Operational risk is the risk of loss that could arise as a result of breakdowns in internal controls and processes, system inefficiencies, theft and fraud.

The bank seeks to minimise its exposure to operational risk by various means, including the following:

- The establishment of an independent compliance function to monitor compliance with relevant laws and regulations and to facilitate compliance awareness within the bank;
- The establishment of board and management risk committees;
- The establishment of an independent internal audit function;
- The compilation of board-approved delegated powers of authority;
- The compilation of a policies and procedures manual;
- The provision of staff training (including fraud awareness programmes) and ensuring that they are well versed with the bank's policies and procedures;
- Implementing comprehensive security measures to protect the bank's staff and to safeguard the bank's assets; and
- The establishment of a comprehensive insurance programme to protect itself against material losses that may arise.



	Group		Company	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000

3 Property and equipment

Cost

Land and buildings	16 904	7 155	-	-
Vehicles	1 410	1 154	1 410	1 154
Equipment and computers	25 900	20 539	25 652	20 291
Leasehold improvements	5 546	4 272	5 330	4 056
Tank containers	7 145	7 145	7 145	7 145
	56 905	40 265	39 537	32 646
Accumulated depreciation	23 344	19 045	22 880	18 616

Vehicles	531	445	531	445
Equipment and computers	16 288	13 065	16 040	12 852
Leasehold improvements	3 472	2 789	3 256	2 573
Tank containers	3 053	2 746	3 053	2 746

	33 561	21 220	16 657	14 030
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Land and buildings comprise the following commercial property and vacant land as described below:

- Commercial property in Cape Town described as Erf no. 33983 Cape Town in extent 610 square metres independently valued at R7,3 million (2006 : R6,0 million). The property is leased partly to the bank and partly to third parties. The leases contain an initial non-cancellable period of three years.
- Vacant land in Durban described as Portion 6 of Erf 12445 Durban, Registration Division FV, Province of KwaZulu-Natal, in extent 3 316 square metres. The land was independently valued at R6,9 million (2006 : R6,4 million).

3 655 3 655

3 500 3 500

The land is in the process of being developed by way of construction of office premises to be leased on completion partly to the bank and partly to third parties. Development costs incurred to 31 December 2007 amounted to

	9 749	-
	16 904	7 155

Carrying value at beginning of year	7 155	7 137
Additions	9 749	18
	16 904	7 155

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

3 Property and equipment (continued)

Movement in property and equipment	Land and buildings	Vehicles	Equipment and computers	Leasehold improvements	Tank containers	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Group						
2007						
Net carrying value at beginning of year	7 155	709	7 474	1 483	4 399	21 220
Additions	9 749	328	5 407	1 274	-	16 758
Disposals	-	-	(26)	-	-	(26)
Depreciation for the year	-	(158)	(3 243)	(683)	(307)	(4 391)
Net carrying value at end of year	16 904	879	9 612	2 074	4 092	33 561
2006						
Net carrying value at beginning of year	7 137	443	5 395	699	4 731	18 405
Additions	18	498	4 713	1 404	-	6 633
Disposals	-	(134)	(358)	(20)	-	(512)
Depreciation for the year	-	(98)	(2 276)	(600)	(332)	(3 306)
Net carrying value at end of year	7 155	709	7 474	1 483	4 399	21 220
Company						
2007						
Net carrying value at beginning of year	-	709	7 439	1 483	4 399	14 030
Additions	-	328	5 407	1 274	-	7 009
Disposals	-	-	(26)	-	-	(26)
Depreciation for the year	-	(158)	(3 208)	(683)	(307)	(4 356)
Net carrying value at end of year	-	879	9 612	2 074	4 092	16 657
2006						
Net carrying value at beginning of year	-	443	5 356	699	4 731	11 229
Additions	-	498	4 713	1 404	-	6 615
Disposals	-	(134)	(358)	(20)	-	(512)
Depreciation for the year	-	(98)	(2 272)	(600)	(332)	(3 302)
Net carrying value at end of year	-	709	7 439	1 483	4 399	14 030



	Group		Company	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000

4 Investment in and amount due by subsidiary company

Albaraka Properties (Proprietary) Limited is 100% (2006 : 100%) owned by Albaraka Bank Limited.

The issued share capital of Albaraka Properties (Proprietary) Limited comprises 100 shares of R1 each (2006 : 100 shares of R1 each).

Shares at cost			*	*
Due by subsidiary			18 567	7 371
Impairment losses			(371)	(85)
			<u>18 196</u>	<u>7 286</u>

* Amount less than R1 000

The amount due by the subsidiary is profit-free and has no fixed date of repayment.

5 Deferred tax asset

Balance at beginning of year	2 491	3 413	2 491	3 413
Transfers from/(to) income statement	2 041	(922)	1 860	(922)
Transfers from welfare and charitable fund	17	-	17	-
Balance at end of year	<u>4 549</u>	<u>2 491</u>	<u>4 368</u>	<u>2 491</u>

The deferred tax asset comprises the following:

Impairment loss in subsidiary			107	25
Deferred tax on accumulated losses in subsidiary	107	25		
Impairment for doubtful advances	1 180	1 050	1 180	1 050
Other provisions	3 073	824	2 892	824
Prepaid expenses	(57)	(56)	(57)	(56)
Property and equipment	(195)	(245)	(195)	(245)
Unearned income	441	893	441	893
	<u>4 549</u>	<u>2 491</u>	<u>4 368</u>	<u>2 491</u>

The expected manner of recovery of the deferred tax asset will be through the use thereof at tax rates applicable to companies at the time of such recovery.

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
6 Advances and other receivables				
6.1 Sectoral analysis				
Advances to customers				
Property (Musharaka and Murabaha)	834 286	527 357	834 286	527 357
Instalment sale	277 245	240 762	277 245	240 762
Trade	209 938	151 558	209 938	151 558
Qurdan Hasana (benevolent advances)	-	24	-	24
Gross advances to customers	1 321 469	919 701	1 321 469	919 701
Impairment for doubtful advances	13 199	11 279	13 199	11 279
	1 308 270	908 422	1 308 270	908 422
Advances to banks				
Equity finance	166 275	383 818	166 275	383 818
Net advances	1 474 545	1 292 240	1 474 545	1 292 240
Other receivables	3 394	8 128	3 391	8 124
	1 477 939	1 300 368	1 477 936	1 300 364

Included under property are Musharaka advances amounting to R678,7million (2006 : R382,3 million).

6.2 Maturity analysis

Advances to customers				
Within 1 month	104 224	78 277	104 224	78 277
From 1 month to 3 months	146 159	101 672	146 159	101 672
From 3 months to 1 year	170 659	198 832	170 659	198 832
From 1 year to 5 years	585 190	419 224	585 190	419 224
More than 5 years	315 237	121 696	315 237	121 696
	1 321 469	919 701	1 321 469	919 701
Equity finance				
Within 1 month	51 594	223 478	51 594	223 478
From 1 month to 3 months	114 681	160 340	114 681	160 340
	166 275	383 818	166 275	383 818



	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
6.3 Analysis of impairment for doubtful advances				
6.3.1 Specific impairments				
Balance at beginning of year	4 829	7 348	4 829	7 348
Charge/(release) to income statement	82	(3 482)	82	(3 482)
Bad debts recovered	1 646	2 059	1 646	2 059
Bad debts written off	(1 134)	(1 096)	(1 134)	(1 096)
	5 423	4 829	5 423	4 829
6.3.2 Portfolio impairment				
Balance at beginning of year	6 450	5 000	6 450	5 000
Charge to income statement	1 326	1 450	1 326	1 450
	13 199	11 279	13 199	11 279
6.4 Analysis of impairments				
6.4.1 In terms of IAS 39				
Specific	5 423	4 829	5 423	4 829
Portfolio	7 776	6 450	7 776	6 450
	13 199	11 279	13 199	11 279
7 Investment securities				
Unit trust investments				
387 405 units in Futuregrowth Albaraka Equity Fund				
At cost	5 003	-	5 003	-
Fair value adjustment	(2)	-	(2)	-
	5 001	-	5 001	-
Unlisted investments				
Kilimanjaro Investment Limited, at cost	2 600	-	2 600	-
The company is a property owning company of which the bank owns 9,9%.				
	7 601	-	7 601	-
8 Cash and cash equivalents				
Cash on hand	1 327	912	1 327	912
Government and other stock	59 889	41 937	59 889	41 937
Funds at call	3 050	8 381	3 050	8 381
Balances with central bank	29 839	19 872	29 839	19 872
Placements with other banks	68 551	75 262	68 551	75 262
	162 656	146 364	162 656	146 364

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

	Group		Company	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
9 Share capital and share premium				
9.1 Authorised share capital				
30 000 000 (2006 : 15 000 000) ordinary shares of R10 each	300 000	150 000	300 000	150 000
9.2 Issued share capital				
15 000 000 (2006 : 15 000 000) ordinary shares of R10 each	150 000	150 000	150 000	150 000
9.3 Share premium				
Balance at beginning of year	234	325	234	325
Less: share issue expenses	(234)	(91)	(234)	(91)
	150 000	150 234	150 000	150 234
10 Reserves				
Investment risk reserve	2 605	2 605	2 605	2 605
Retained income/(accumulated losses)	37 711	(1 723)	37 711	(1 723)
General credit risk reserve	600	600	600	600
Regulatory credit risk reserve	10 656	35 656	10 656	35 656
	51 572	37 138	51 572	37 138
11 Deposits from customers				
Participation investment accounts	846 352	764 825	846 352	764 825
Savings accounts	193 449	212 720	193 449	212 720
Monthly investment plan	49 684	43 417	49 684	43 417
Haj investment scheme	49 169	47 185	49 169	47 185
Regular income provider	304 835	185 514	304 835	185 514
	1 443 489	1 253 661	1 443 489	1 253 661
Maturity analysis				
Within 1 month	723 828	568 610	723 828	568 610
From 1 month to 3 months	271 722	277 488	271 722	277 488
From 3 months to 1 year	446 496	406 761	446 496	406 761
From 1 year to 5 years	1 443	802	1 443	802
	1 443 489	1 253 661	1 443 489	1 253 661
12 Accounts payable				
Sundry creditors	13 403	3 935	13 401	3 934
Accruals	5 757	5 316	5 757	5 316
South African Revenue Services	6 647	7 083	7 757	7 180
	25 807	16 334	26 915	16 426



	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
13 Welfare and charitable funds				
Gross income from non-Islamic activities during the year	10 561	8 723	10 561	8 723
Income paid on subordinated loan	-	(2 565)	-	(2 565)
Net income from non-Islamic activities before taxation	10 561	6 158	10 561	6 158
Normal taxation thereon	(2 346)	(1 482)	(2 346)	(1 482)
Net income from non-Islamic activities during the year	8 215	4 676	8 215	4 676
Donations and advances	(5 853)	(76)	(5 853)	(76)
Balance at beginning of year	13 076	8 476	13 076	8 476
Balance at end of year	15 438	13 076	15 438	13 076
14 Non-Islamic income				
Net interest income	10 059	8 228	10 059	8 228
Other non-Shari'ah compliant income	561	533	561	533
Fair value adjustment on Treasury Bills	(59)	(38)	(59)	(38)
	10 561	8 723	10 561	8 723
Income paid on subordinated loan	-	(2 565)	-	(2 565)
Amount transferred to welfare and charitable funds	(10 561)	(6 158)	(10 561)	(6 158)
	-	-	-	-
15 Fee and commission income				
Service fees	5 291	4 060	5 291	4 060
Commission receivable on sale of unit trusts	5 107	3 969	5 107	3 969
Management fee from subsidiary			200	400
Other management fees	60	138	60	138
Takafol commission income	61	47	61	47
	10 519	8 214	10 719	8 614
16 Other operating income				
Property rental income	299	300	-	-
Tank container rental income	652	858	652	858
Surplus on disposal of property and equipment	20	67	20	67
Other	216	428	216	428
	1 187	1 653	888	1 353

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

	Group		Company	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
17 Operating expenditure				
Operating expenditure is stated after charging the following items:				
Auditor's remuneration				
Audit fees - current year	1 158	1 092	1 158	1 092
Fees for other services				
Tax consultancy	144	120	144	120
Expenses	62	-	62	-
	<u>1 364</u>	<u>1 212</u>	<u>1 364</u>	<u>1 212</u>
Depreciation of property and equipment	4 391	3 306	4 356	3 302
Consultancy fees	805	1 397	805	1 397
Operating lease charges - land and buildings	2 242	1 936	2 386	2 071
Expenses in respect of increase in authorised share capital	521	-	521	-
Impairment for losses in subsidiary			286	85
Staff costs	30 324	24 625	30 324	24 625
Directors' emoluments	4 169	3 212	4 169	3 212
Executive services	3 587	2 698	3 587	2 698
Non-executive directors' fees	582	514	582	514
			Salary	Bonuses
			Other	Total
			Benefits	
	R'000	R'000	R'000	R'000

17.1 Executive services

2007

SAE Chohan - Chief executive	1 117	230	121	1 468
MG McLean - Deputy chief executive	853	140	193	1 186
MJD Courtiade - Financial director	725	130	78	933
	<u>2 695</u>	<u>500</u>	<u>392</u>	<u>3 587</u>

2006

SAE Chohan - Chief executive	1 009	-	102	1 111
MG McLean - Deputy chief executive	699	67	107	873
MJD Courtiade - Financial director	639	-	75	714
	<u>2 347</u>	<u>67</u>	<u>284</u>	<u>2 698</u>

The executive directors do not have any service contracts.



	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
17.2 Non-executive directors' fees				
AA Yousif	67	62	67	62
Adv. AB Mahomed SC	90	84	90	84
F Kassim	43	23	43	23
A Lambat	64	30	64	30
MS Paruk	88	90	88	90
YM Paruk	62	68	62	68
SA Randeree	58	64	58	64
OA Suleiman	57	43	57	43
M Youssef Baker	53	50	53	50
	582	514	582	514

18 Taxation

South African tax				
Normal - current year	12 752	5 578	12 603	5 618
- prior years	-	257	-	257
Attributable to income from non-Islamic activities (refer accounting policy 10 and note 13)	(2 346)	(1 482)	(2 346)	(1 482)
Deferred tax - current year	(1 073)	932	(980)	932
- prior years	(985)	(10)	(897)	(10)
Secondary tax on companies	375	206	375	206
Taxation attributable to Islamic activities	8 723	5 481	8 755	5 521

Reconciliation of taxation charge

	%	%	%	%
Effective tax rate	32,4	35,7	32,5	35,5
Secondary tax on companies	(1,4)	(1,3)	(1,4)	(1,3)
Adjustable items:				
Non-taxable income and non-deductible expenditure				
Current year	(2,0)	(3,5)	(2,1)	(3,7)
Prior years	-	(1,6)	-	(1,6)
Deferred tax adjustment - prior years	-	0,1	-	0,1
Deferred tax not raised on loss incurred by subsidiary company	-	(0,4)	-	-
	29,0	29,0	29,0	29,0

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

	Group		Company	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
19 Earnings per share				
Basic and diluted earnings per share are calculated on after tax income attributable to ordinary shareholders and a weighted average number of 15 000 000 (2006 : 9 703 151) ordinary shares in issue during the year (cents)	<u>121,2</u>	<u>101,6</u>		
Headline earnings per share are calculated on headline earnings and a weighted average number of 15 000 000 (2006 : 9 703 151) ordinary shares in issue during the year (cents)	<u>121,2</u>	<u>100,9</u>		
Headline earnings are derived from:				
Profit for the period	18 184	9 854		
Surplus arising on disposal of property and equipment	(20)	(67)		
	<u>18 164</u>	<u>9 787</u>		
20 Dividends				
A dividend of 25 cents per share (2006 : 20 cents) was paid on 31 October 2007 to the shareholders registered on the shareholders register of the bank at the close of business on 12 October 2007.	<u>3 749</u>	<u>1 781</u>	<u>3 749</u>	<u>1 781</u>
21 Notes to Cash Flow Statements				
21.1 Cash generated from operations				
Profit before taxation	26 907	15 335	26 939	15 556
Expenses in respect of increase in authorised shared capital	521	-	521	-
Adjustment for non-cash items:				
Depreciation of property and equipment	4 391	3 306	4 356	3 302
Surplus arising on disposal of property and equipment	(20)	(67)	(20)	(67)
Straight-lining of operating lease	16	(11)	16	(11)
Impairment for losses in subsidiary			286	85
	<u>31 815</u>	<u>18 563</u>	<u>32 098</u>	<u>18 865</u>



	Group		Company	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
21.2 Changes in working capital				
Increase in deposits from customers	189 828	249 693	189 828	249 693
Increase/(decrease) in accounts payable	9 892	(2 125)	9 896	(2 097)
Increase in welfare and charitable funds	4 708	6 083	4 708	6 083
(Increase) in advances receivable	(177 570)	(291 572)	(177 572)	(291 728)
	26 858	(37 921)	26 860	(38 049)
21.3 Taxation paid				
Amount outstanding at beginning of year	(7 083)	(1 519)	(7 180)	(2 025)
Amount charged to the income statement	(10 780)	(4 559)	(10 631)	(4 599)
Amount charged to welfare and charitable funds	(2 346)	(1 482)	(2 346)	(1 482)
Amount outstanding at end of year	6 647	7 083	7 757	7 180
	(13 562)	(477)	(12 400)	(926)
21.4 Dividends paid				
Amount outstanding at beginning of year	-	-	-	-
Dividends declared and paid	(3 749)	(1 781)	(3 749)	(1 781)
Amount outstanding at end of year	-	-	-	-
	(3 749)	(1 781)	(3 749)	(1 781)
21.5 Additions to property and equipment				
Land and buildings	(9 749)	(18)	-	-
Vehicles	(328)	(498)	(328)	(498)
Equipment and computers	(5 407)	(4 713)	(5 407)	(4 713)
Leasehold improvements	(1 274)	(1 404)	(1 274)	(1 404)
	(16 758)	(6 633)	(7 009)	(6 615)
22 Letters of credit, guarantees and confirmations				
Letters of credit	7 426	4 925	7 426	4 925
Guarantees and confirmations	38 989	45 699	38 989	45 699
	46 415	50 624	46 415	50 624

The above letters of credit, guarantees and confirmations are directly linked to the company's core activities and payments relating thereto will be made in the ordinary course of business.

23 Capital commitments

Authorised but not yet contracted for	18 610	47	18 610	47
Authorised and contracted for	49 650	-	-	-

The expenditure will be financed from funds on hand and generated internally.

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
24 Financial instruments				
24.1 Credit risk management - significant exposures				
Advances	1 487 744	1 303 519	1 487 744	1 303 519
Letters of credit, guarantees and confirmations	46 415	50 624	46 415	50 624
	1 534 159	1 354 143	1 534 159	1 354 143

24.2 Currency risk management

The group does not have any foreign currency exposures.

24.3 Derivative instruments

The group did not trade in any derivative instruments during the year under review.

24.4 Liquidity risk management

Group	Carrying amount R'000	Term to maturity				
		Within 1 month R'000	1 to 3 months R'000	3 months to 1 year R'000	1 to 5 years R'000	More than 5 years R'000
2007						
Assets						
Advances and other receivables	1 477 939	155 820	263 537	158 155	585 190	315 237
Investment securities	7 601	-	-	-	7 601	-
Cash and cash equivalents	162 656	162 656	-	-	-	-
	1 648 196	318 476	263 537	158 155	592 791	315 237
Liabilities						
Deposits from customers	1 443 489	723 829	271 722	446 496	1 442	-
Accounts payable	25 807	3 502	12 735	9 570	-	-
Welfare and charitable funds	15 438	-	500	6 000	8 938	-
	1 484 734	727 331	284 957	462 066	10 380	-
Net liquidity gap	163 462	(408 855)	(21 420)	(303 911)	582 411	315 237
2006						
Assets						
Advances and other receivables	1 300 368	301 916	267 160	187 742	421 850	121 700
Cash and cash equivalents	146 364	146 364	-	-	-	-
	1 446 732	448 280	267 160	187 742	421 850	121 700
Liabilities						
Deposits from customers	1 253 661	568 610	277 488	406 761	802	-
Accounts payable	16 334	2 998	3 467	9 869	-	-
Welfare and charitable funds	13 076	-	-	7 576	5 500	-
	1 283 071	571 608	280 955	424 206	6 302	-
Net liquidity gap	163 661	(123 328)	(13 795)	(236 464)	415 548	121 700



24.5 Accounting classification and fair values

Group	Advances and other receivables	Available for sale	Other amortised cost	Carrying amount	Fair value
	R'000	R'000	R'000	R'000	R'000
2007					
Assets					
Advances and other receivables	1 477 939	-	-	1 477 939	1 477 939
Investment securities	-	7 601	-	7 601	7 601
Cash and cash equivalents	102 767	59 889	-	162 656	162 656
	<u>1 580 706</u>	<u>67 490</u>	<u>-</u>	<u>1 648 196</u>	<u>1 648 196</u>
Liabilities					
Deposits from customers	-	- 1 443 489	1 443 489	1 443 489	1 443 489
Accounts payable	-	- 25 807	25 807	25 807	25 807
Welfare and charitable funds	-	- 15 438	15 438	15 438	15 438
	<u>-</u>	<u>- 1 484 734</u>	<u>1 484 734</u>	<u>1 484 734</u>	<u>1 484 734</u>
2006					
Assets					
Advances and other receivables	1 300 368	-	-	1 300 368	1 300 368
Cash and cash equivalents	104 427	41 937	-	146 364	146 364
	<u>1 404 795</u>	<u>41 937</u>	<u>-</u>	<u>1 446 732</u>	<u>1 446 732</u>
Liabilities					
Deposits from customers	-	- 1 253 661	1 253 661	1 253 661	1 253 661
Accounts payable	-	- 16 334	16 334	16 334	16 334
Welfare and charitable funds	-	- 13 076	13 076	13 076	13 076
	<u>-</u>	<u>- 1 283 071</u>	<u>1 283 071</u>	<u>1 283 071</u>	<u>1 283 071</u>
		Group	Company		
	2007	2006	2007	2006	
	R'000	R'000	R'000	R'000	

25 Operating leases

25.1 Leases as lessee

Non-cancellable operating lease rentals payable as follows:

Less than 1 year	2 451	2 083	2 451	2 083
Between 1 and 5 years	2 091	4 110	2 091	4 110
More than 5 years	-	15	-	15
	<u>4 542</u>	<u>6 208</u>	<u>4 542</u>	<u>6 208</u>

Operating leases relate to building premises leased in South Africa.

25.2 Leases as lessor

Future rentals due	<u>652</u>	<u>858</u>	<u>652</u>	<u>858</u>
Future rentals due relate to the leasing of tank containers.				

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

26 Retirement benefit plan

Albaraka Bank Limited contributes to the Albaraka Bank Provident Fund, a defined contribution plan. The Fund is registered under and governed by the Pension Funds Act, 1956, as amended.

Employee benefits are determined according to each member's equitable share of the total assets of the Fund. The company's contribution for the year was R2,4 million (2006 : R2,0 million).

27 Related party information

The holding company of Albaraka Bank Limited at 31 December 2007 is Albaraka Banking Group B.S.C. which is a company registered in the Kingdom of Bahrain and which holds 51,7% (2006 : 51,7%) of the company's ordinary shares.

DCD Holdings (SA) (Proprietary) Limited and DCD London and Mutual Plc, a company incorporated in England and Wales, hold 15,0% (2006 : 15,0%) of the company's ordinary shares.

The subsidiary of the company is identified as per note 4. The rental paid to the subsidiary for the year amounted to R143 741 (2006 : R135 030).

The remuneration paid to the directors is disclosed in note 17.

The management fee charged to the subsidiary is disclosed in note 15. The Musharaka transactions are conducted on an arm's length competitive basis. The total amount advanced is as disclosed in note 6.

Albaraka Bank Limited enters into financial transactions, including normal banking relationships, with companies in which the directors of the bank have a beneficial interest.

These transactions are governed by terms no less favourable than those arranged with third parties and are subject to the bank's normal credit approval policies and procedures. Directors are required to declare their interest in such transactions and recuse themselves from participating in any meeting at which these matters are discussed. Any transaction, irrespective of size, has to be reviewed by the board.

In order to avoid conflicts of interest and with a view to ensuring transparency at all times, a register of directors' interest in companies containing the nature of such interests, as well as the nature and extent of the beneficial shares held in the companies is submitted to the board of directors annually for reviewing and updating. Direct interests are disclosed in the table on the following page:



Director	Company/Borrowers	Financing approved	Balance Outstanding	
		R'000	2007 R'000	2006 R'000
SAE Chohan	Chohan's Spice (Pty) Ltd SAE Chohan Hawa Bibi Chohan	2 126	1 315	581
		239	12	77
		750	657	735
		3 115	1 984	1 393
Secured by covering mortgage bonds over property, deeds of surety and a motor vehicle.				
MG McLean	The Waloth Family Trust Secured by a covering mortgage bond over property and deeds of surety.	810	468	744
MS Paruk	Desai Jadwat Incorporated Ranmor Investments (Pty) Ltd	165	-	2
		4 050	2 647	-
		4 215	2 647	2
Secured by a covering mortgage bond over property, deeds of surety, guarantees and equipment.				
YM Paruk	Shadows Partnership The Parksons Family Trust	2 127	1 544	-
		5 308	3 520	1 321
		7 435	5 064	1 321
Secured by a covering mortgage bond over property and deeds of surety.				
MJD Courtiade	Secured by the asset financed.	250	226	-

Staff advances

Staff advances are conducted at subsidised profit rates. The amount subject to the subsidised profit rate is dependent on the staff member's position within the entity. The total staff advances outstanding at the end of the period amounted to

15 200 **12 137**

Notes to the Financial Statements

for the year ended 31 December 2007 (Continued)

28 Standards and interpretations not yet effective

At the date of authorisation of the annual financial statements for the year ended 31 December 2007, the following applicable accounting standards were in issue but not yet effective:

IAS 1 (AC 101)

IAS 1 (AC 101) will be adopted by the bank for the first time for its financial reporting period ending 31 December 2009.

The group will present all non-owner changes in equity in a single statement of comprehensive income (which will include the current income statement) and owner changes in equity in the statement of changes in equity. Reclassification adjustments and income tax relating to each component of other comprehensive income will be disclosed on the face of the statement of comprehensive income. Currently these components are available-for-sale fair value gains/losses reserve and the foreign currency translation reserve.

IAS 27 (AC 132) amendments

IAS 27 (AC 132) will be adopted by the bank for the first time for its financial reporting period ending 31 December 2010.

In accordance with IAS 27 (AC 132) amendments, acquisitions of additional non-controlling equity interests in subsidiaries have to be accounted for as equity transactions. Disposals of equity interests while retaining control are also accounted for as equity transactions. When control of an investee is lost, the resulting gain or loss relating to the transaction will be recognised in profit and loss.

It has always been the group's accounting policy to treat all acquisitions of additional interests in subsidiaries, as well as disposals of interests in subsidiaries as equity transactions. The group will, however, change its accounting policy relating to the loss of control when an equity interest is retained. In future, when control is lost, through sale or otherwise, the resulting gain or loss recognised in profit and loss will include any remeasurement to fair value of the retained equity interest.

The amendments to IAS 27 (AC 132) also require that losses (including negative "other comprehensive income" as detailed in the revised IAS 1 (AC 101)) have to be allocated to the non-controlling interest even if doing so causes the non-controlling interest to be in a deficit position. The group will in future change its accounting policies on the allocation of losses to non-controlling interests. In the past losses were allocated only until the non-controlling interests had a zero balance.

IFRS 3 (AC 140)

The revised IFRS 3 (AC 140) will be adopted by the bank for the first time for its financial reporting period ending 31 December 2010.

IFRS 3 (AC 140) applies to all new business combinations that occur after 1 January 2010. For these future business combinations, the group will change its accounting policies to be in line with the revised IFRS 3 (AC 140). In future all transaction costs will be expensed and contingent purchase consideration will be recognised at fair value at acquisition date. For successive share purchases, any gain or loss for the difference between the fair value and the carrying amount of the previously held equity interest in the acquiree will be recognised in profit and loss.



Value Added Statement

for the year ended 31 December 2007

	2007	%	2006	%
	R'000		R'000	
Value added				
Operating income	69 527		51 028	
Fee and commission income	10 519		8 214	
Other operating income	1 187		1 653	
Operating expenditure	(16 282)		(14 031)	
	64 951	100,0	46 864	100,0
Value allocated to				
Employees				
Salaries and other benefits	33 911	52,2	27 323	58,3
Government				
Normal tax	8 723	13,4	5 481	11,7
Value added tax	1 135	1,8	900	1,9
Providers of capital				
Dividends to shareholders	3 749	5,8	1 781	3,8
Retention for expansion and growth				
Depreciation	2 999	4,6	3 306	7,1
Retained income	14 434	22,2	8 073	17,2
	64 951	100,0	46 864	100,0

