

Chairman and Chief Executive's Statement

Economic summary

In last year's Al Baraka Bank annual report in the midst of the global recession, it was suggested that there was a good chance that the global economy might emerge from recession following unprecedented and massive fiscal and monetary stimulus introduced into leading industrialised economies. This has transpired, with all the economies of significance in the world returning to positive growth during the second half of 2009.

South Africa was no exception. The extremely high correlation between the growth of the South African economy and that of the world economy has continued. After plunging into severely negative proportions in the first quarter of 2009, growth in the South African economy has recovered, extricating itself from recession. The principal sources of recovery have been in the export-oriented manufacturing, mining and electricity sectors, in which double-digit negative growth in the first half of 2009 was transformed into positive growth more recently. The strong replenishment in inventories and the associated increase in demand for raw materials and processed minerals from China, coupled with an increase in the demand for vehicles in western countries, have been the main sources of improvement in South Africa's export performance.

However, as in the case of much of the rest of the world, the improvement in household consumption expenditure and services sectors has lagged behind that of export-oriented sectors. In spite of a 5% reduction in interest rates between December 2008 and August 2009, the huge increase in household indebtedness, which had taken place between 2002 and 2008, has left its mark in terms of reluctance on the part of households to incur more debt. The introduction of the National Credit Act two years ago has made it more difficult for individuals and businesses to borrow than was the case prior to the introduction of the Act. However, one assumes that the loss of employment amongst many consumers has also weighed down upon their ability and willingness to borrow to fund their spending.

Nonetheless, the impact of sharply lower interest rates is bound to filter through into boosting growth of consumption expenditure with a lag. With interest rates likely to remain at current low levels for the foreseeable future, due to the prospect of inflation declining back into the 3% to 6% inflation target, the financial health of households and businesses should continue improving, in such a way as to sustain economic recovery. Furthermore, asset prices have recovered more

recently, generating increased optimism about economic prospects. The holding of the FIFA World Cup football tournament in June and July this year is also bound to provide some boost to consumer spending. However, at no stage does one anticipate a recovery in the growth of consumer spending anywhere near to the levels seen earlier in the decade, primarily because of the ongoing high burden of indebtedness.

Whilst there has been a sharp decline in private sector fixed investment in the wake of a loss of confidence during the recession, government's massive infrastructural investment programme is likely to provide some ongoing underbelly to capital formation. According to the February 2010 budget, the public sector intends to spend no less than R846 billion on infrastructural developments, especially in areas such as new power stations, improvements in the rail network, water supply and tele-communications, during the next three years. Even if the full programme is not implemented in the time-span available, the opportunities provided to all sorts of industries by this programme should assist in promoting economic growth in the medium-term.

One may look forward to 2010 being a much better year economically for the country than 2009 proved to be.

South Africa's economic managers, as in the case with several other countries, have been faced with a sharp reduction in tax revenues as a result of the recession. Simultaneously, government expenditure has been expanded to serve as a contra cyclical spur for growth. The government is clearly relying on the prospective improvement in economic growth to raise tax revenues. In this way, South Africa's government, as with other governments around the world, hopes to engineer a reduction in fiscal deficits over the next three years, so as to enable the enormous increases in public debt levels incurred through fiscal stimulus, to be contained. The fundamental risk to this scenario lies in the fact that much of the monetary stimulus injected into the world economy is driving a renewed bubble in asset prices, which could get out of hand only to be followed by another sharp slump in financial markets. Under such circumstances, the increases in tax revenues anticipated with renewed sustainable growth will not be forthcoming, leaving governments with no room for manoeuvre to escape from another recession, should it materialise. Nonetheless, South Africa is in the fortunate situation of starting off its fiscal deficit expansion from a position in which, following a decade of strict fiscal rectitude, its public debt levels have been lower than in most other

Chairman and Chief Executive's Statement (continued)

countries. Therefore, in spite of budgeting for a sharp increase in public debt, the latter will still be at a relatively modest level in three years time.

Al Baraka Banking Group

The 2009 financial year saw the Bahrain-based Al Baraka Banking Group increase its stake in South Africa's Al Baraka Bank from 53,6% to 56,3%.

In addition, the group approved a proposal to further increase its shareholding in the South African subsidiary as and when possible as a means of growing its influence in South and Southern Africa.

The move is a clear demonstration of the internationally-acclaimed Al Baraka Banking Group's confidence in both its South African subsidiary and in the potential of the market in this country. Critically, the group's increased shareholding in South Africa's Al Baraka Bank means that our financial institution is now perfectly positioned for renewed growth at a time when the country's economy is beginning to show encouraging signs of recovery in the aftermath of the global financial crisis and credit crunch which devastated economies across the world and led to recession in many countries, including South Africa.

Al Baraka Banking Group has a shareholding in banking units in no fewer than twelve countries, employing some 7 250 members of staff world-wide. The group, with assets totalling more than US\$13,2 billion, achieved net profit of US\$167,4 million in the 2009 financial year. In addition, the group was successful in securing a licence for a new banking unit in Syria during the course of the 2009 financial year, in line with its ongoing endeavour to increase its global banking footprint.

Importantly, too, the 2009 financial year resulted in the implementation by the group of a bold re-branding exercise, creating a single corporate identity for all its subsidiary banking units and aligning these units to the group's business objectives. This single, unified brand identity has effectively strengthened Al Baraka Banking Group's position as a world leader in the Islamic banking environment and cements the status of all its subsidiaries – including Al Baraka Bank in South Africa – as integral business elements within one of the largest Islamic banking groups in the world.

Indeed, Al Baraka Banking Group's new international brand is

a symbol of partnership between banks in the group and their clients. Accordingly, the positioning statement 'Your Partner Bank,' is indicative of the fact that shared beliefs create strong bonds; bonds which form the basis of long-term relationships between clients and their bank.

Pleasingly, two highly prestigious awards were bestowed on Al Baraka Banking Group during the review period. The group was presented with 'The Best Islamic Globalisation Effort Award' during the Islamic Business & Finance Magazine's awards ceremony in Dubai, while the 2009 World Islamic Banking Conference conferred 'The Islamic Banker of the Year Award' on Mr Adnan Yousif, president and chief executive officer of Al Baraka Banking Group in Bahrain, and also the chairman of Al Baraka Bank in South Africa. This was the second time Mr Yousif has received this highly prestigious award.

The group, greatly humbled by the industry's double award nominations in 2009, is inspired to utilise such recognition as further evidence of its efforts to better serve its clients throughout the world.

Shariah banking

We take great pride in the fact that Al Baraka Bank is South Africa's only fully-fledged Islamic banking institution and, accordingly, are pleased to re-affirm our commitment to ensuring the bank's Shariah compliance in all its business operations going forward.

Our bank is a member of the Bahrain-based Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), an organisation respected around the world for the standards it lays down and by which our financial institution abides. In addition, we recognise the need to take direction in terms of the activities of the bank, as regards Shariah, from the Shariah Supervisory Board, which is an independent body of specialist jurists in Islamic commercial jurisprudence. Lastly, we make every effort to ensure the ongoing training of members of our staff in Shariah compliance, pertinent to all aspects of our business.

We place great emphasis on our internal Shariah controls; controls which actively afford us the opportunity to demonstrate both our commitment and adherence to absolute Shariah compliance in all that we do. Against this background, we confidently display our Shariah Certificates, issued to us by the Shariah Supervisory Board, throughout all our branches and operations for the benefit of both existing and prospective clients.

During the period under review our continued compliance with Shariah was confirmed through audits undertaken by the Shariah Supervisory Board, indicating that the bank had met the standards laid down by AAOIFI.

Corporate governance

On 1 September 2009, the much-awaited King Report on Governance for South Africa 2009, or King III as it is more popularly referred to, was released. Whilst King III only became effective from 1 March 2010, Al Baraka Bank has taken the necessary steps to ensure that the principles contained in King III are appropriately applied to the business of the bank.

The year under review also brought about changes to the financial sector's reporting, in terms of the Financial Sector Charter. Given the uncertainty regarding the Financial Sector Charter, the bank is closely monitoring developments in this regard through the Banking Association of South Africa, as well as exploring reporting in terms of the Black Economic Empowerment Sector Codes.

South African financial performance

The 2009 financial year proved to be a difficult period for business and consumers alike in South Africa as the recession tightened its grip on the country in the wake of the global financial markets meltdown.

Pleasingly and in spite of such adverse economic conditions, we marked our 20th year in business with positive results. At a time when other financial institutions were reflecting constraints to growth, Al Baraka Bank achieved growth in assets amounting to a significant 27,3%, which saw the bank exceed the R2,3 billion mark.

The bank's deposit book grew by 31,1%, or R505,5 million, during the year, to exceed R2,1 billion for the first time in the bank's history. This growth in deposits allowed the bank to increase its advances book by 12,8% and its equity financing book by 134,1%, allowing total assets to grow to R2,4 billion.

The impact of the reduction in the Al Baraka Bank profit mark-up during the year resulted in gross income growing by a modest 9,2% in 2009. Net income from operations for the 2009 financial year was 4,4% up from 2008 and amounted to R101,2 million for the year. After accounting for operating expenses and taxation, net profit for the year was R18,4 million, compared against R21,7 million achieved in 2008.

During the 2009 financial year we successfully built on the foundation created during the previous reporting period when we secured a licence allowing us to deal in foreign exchange sales within the international travel market. This addition to our growing range of financial products proved an instant success, with sales exceeding budget in the first full year of operation in spite of our being limited to only the buying and selling of notes and traveller's cheques.

We constantly look to expand our already comprehensive bouquet of Shariah-compliant products, creating a full range of contemporary financial services, not only for the benefit of our existing clients, but to better position the bank to break into new markets; markets interested in an alternative banking method, but requiring products and services comparable with those offered by traditional mainstream banks.

In this regard, the review period heralded a major milestone in Al Baraka Bank product development and the fulfilment of an undertaking we announced during the 2008 financial year, that of the launch of electronic banking, inclusive of the provision of a debit card and the introduction of six ATMs around the country.

We firmly believe that the advent of internet banking and debit card availability, as well as our overall aims in the country, will effectively transform Al Baraka Bank, taking our business to a new level because, for the first time in our history, we are able to offer clients and prospective clients both within and outside our traditional market a totally holistic banking solution.

The launch of this competitively priced product resulted in the immediate growth of our business footprint in South Africa, ensuring access for those who, by their geographic location, had limited or no possible interaction with our bank in the past.

The review period saw the product totally integrated within our retail client base as well as being rolled-out on a limited basis to our business clients. Full business integration is anticipated in 2010.

Dividends

We are pleased to confirm that the board approved a dividend of 45 cents per share for the 2009 financial year, constituting the fourth consecutive year that the bank has paid a dividend for the benefit of our shareholders.

Chairman and Chief Executive's Statement (continued)

Head office relocation and business growth

The long-awaited head office relocation to our iconic new premises at Durban's Kingsmead Office Park in the heart of the city's financial district occurred during the 2009 financial year. The move was the realisation of a long-held dream and co-incided with the celebration of our 20th year in business in South Africa.

The building, which also accommodates one of our two Durban-based branches – Kingsmead Branch – and our Durban corporate component, epitomises the professional image we seek to project as a subsidiary business unit of the leading international banking group, Al Baraka Banking Group, and provides our clients with banking facilities which better reflect their expectations of their financial institution of choice and ushers in a new era in Islamic banking in this country.

During the review period we also officially opened a second branch in Durban, strategically located in Overport on the Berea, so growing our national footprint to six retail facilities country-wide. As a niche-market bank, we believe we have a responsibility to our clients to provide ease of access, convenience and security.

On the corporate business front, we followed our 2008 opening of corporate offices in Cape Town and Port Elizabeth with a dedicated corporate office in Gauteng, bringing our corporate office network in South Africa to four fully-fledged business operations. Our corporate offices are geared to providing a dedicated service to our large business clients and, pleasingly, the introduction in Gauteng of this business component proved an instant success.

We remain committed to bringing our retail and corporate services closer to the people we serve, so playing an active role in making their interactions with Al Baraka Bank easier. We will also strive, as the bank further develops, to establish additional branches in other areas of South Africa as a means of remaining at the leading edge of Islamic banking in South Africa.

Al Baraka Bank now has retail branches in Durban, Athlone in Cape Town, Laudium in Pretoria, and Lenasia and Fordsburg in Johannesburg, as well as corporate offices in Durban, Cape Town, Gauteng and Port Elizabeth.

Information technology

Al Baraka Bank embarked on the implementation of a project to replace its core banking system during the 2009 financial year,

through the adoption of the Equation Islamic Banking and Branch Automation System, which is expected to improve our bank's competitive edge.

The introduction of the new banking system is in line with Al Baraka Banking Group's overall international strategic direction and will realise a reduction in business costs through the automation processes and attendant operational efficiencies. It is further recognised that the Equation banking system's set of relationship management tools allow staff a 360° view of client profiles and dealings with the bank, leading to significantly improved levels of customer service.

Corporate social investment

South Africa is faced with severe and critical socio-economic issues affecting millions of its people. Poverty and the under-development of people are major inhibitors to the country reaching its true potential.

Business is increasingly playing a leading role in addressing matters relating to the socio-economic development of historically disadvantaged people in this country, and Al Baraka Bank is no exception in this regard. We believe that this country's business community has a duty to assist in contributing towards overcoming the many socio-economic challenges the country faces.

Accordingly, the bank has in place a comprehensive Corporate Social Investment Programme designed to address social and economic matters within five distinct fields, namely education, humanitarianism, health, security and poverty alleviation.

During the 2009 financial year, we committed R16,5 million to Corporate Social Investment initiatives to the benefit of a range of charities and charitable organisations around South Africa. Of this amount, some R2,9 million was dedicated to a number of disadvantaged schools for infrastructural and equipment improvements, given that it is our belief that South Africa's future success is founded on the delivery of sound education for all today.

Future prospects

The bank has created a solid foundation within our niche business market environment, is aligned to the business objectives of Al Baraka Banking Group and is well-positioned for a further period of pragmatic growth in an improving economic environment.

It is our intention to look to significantly increasing return on equity and to intensify our focus on both the Gauteng and Western Cape regions of South Africa as we firmly believe that these are areas of potential for our bank's continued growth.

In addition, we aim to provide our clients access to expanded Shariah-compliant products and to continue identifying new products and services to swell our already extensive product bouquet for the added benefit of our existing client base and prospective clients.

Importantly, the Banking Association has created a sub-committee for Islamic banking, which we regard as a significant and, indeed, most encouraging decision going forward. Similarly, a National Treasury initiative, under the auspices of the Minister of Finance, has seen the establishment of a task team to promote the advancement of Islamic banking in the country and to establish South Africa as a leader in Islamic banking on the African continent. This builds on the previous Minister's action in advancing Islamic banking in this country.

We, at Al Baraka Bank, welcome this initiative and regard it as an ideal springboard for our expansion into this country's mainstream financial environment.

Lastly, we recognise that 'partnership' is integral to our new brand identity and we fully embrace the concept of partnership between the bank and all the clients and communities we exist to serve. It is our goal to further enhance the relationships we have established with our clients in the interest of the consistent delivery of service excellence into the future.

Appreciation

The 2009 financial year proved to be a most challenging year; a year which will become etched in history as the culmination of perhaps the worst global economic crisis since the Great Depression of the 1930s.



.....
Adnan Ahmed Yousif
Chairman

19 March 2010
Durban

Recession engulfed the globe, resulting in a sharp drop in international trade, rising unemployment and slumping commodity prices. South Africa did not escape the meltdown and experienced a pronounced deceleration of economic activity. In spite of such negative influences, Al Baraka Bank – thanks to its strict adherence to Islamic business principles – escaped many of the more devastating effects of the world-wide financial crisis, although the local economic downturn did have a marked negative effect on our day-to-day business.

It is testament, then, to the sound leadership displayed by our board, the commitment of members of our executive and staff and the loyalty of our clients that we weathered these difficult business conditions to reflect substantial growth in assets and deposits under these circumstances. We rose to the challenge and emerged the stronger and more resilient for the experience. This would have been impossible without the dedicated support of all those involved with our bank.

We therefore take this opportunity to extend our most sincere thanks to Al Baraka Banking Group in Bahrain for the unstinting support and guidance it has provided and the business confidence it has actively displayed towards our financial institution. Equally, we gratefully acknowledge the experience and expertise which our members of the board bring to the company and for their ability in providing sound strategic direction through the difficulties associated with the turmoil of economic upheaval during the review period.

We acknowledge members of our executive management and staff for their commitment to the bank and its numerous clients in extremely trying conditions. We also thank our many loyal clients for their ongoing support.

We thank Almighty Allah, Most Gracious, and pray that He will continue guiding us to success in the future.



.....
Shabir Chohan
Chief Executive