

alBaraka 

# *Annual Report 2009*



*Your Partner Bank*

# Islamic Banking - an Overview

Islamic Law requires that commerce be conducted on the basis of trade and all material risk inherent in a commercial transaction be shared equitably between the parties. This principle is perhaps the overarching principle that forms the basis and core of Islamic economics, banking and finance.

Islamic banking was developed because the current model of conventional banking violates the fundamental principles of Islamic Law that governs commercial contracts, particularly the principle that no interest can be charged on a loan. Islamic Commercial Law also dictates that profit cannot derive from activities that endanger harm to society, such as activities involving production and distribution of alcoholic beverages, immoral activities, gambling and interest, amongst others.

The reawakening on Islamic Commercial thought of the last four decades has resulted in the establishment of Islamic banks operating on an interest-free basis and in terms of Islamic Commercial Law.

Al Baraka Bank, established in 1989 in Durban, South Africa, was born out of this process. Islamic banks are currently active in more than 42 countries around the world.

The fundamental principles of Islamic Commercial Law are based mainly on the Qur'an and Sunnah (the primary sources of Islamic Law) and extend back over 1 400 years. These principles form the very basis that informs the structuring process of the product offering and the operations of contemporary Islamic banking and finance institutions. In 1990, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) was formed. AAOIFI issues Shariah and Accounting Standards relevant to Islamic banks and financial institutions. These standards ensure that Islamic financial institutions internationally are consistent in their applications and adhere to the highest standards of Shariah Compliance. Al Baraka Bank in South Africa is a member of AAOIFI.

Shariah scholars and practitioners have identified the following pillars as the most salient principles guiding the conduct of Islamic banking and finance business:

- Prohibition of interest and usury;
- Equitable allocation of liability and business risk;
- Avoiding uncertainty and lack of transparency in transactions;
- Moral and social values;
- Ethical investment and social responsibility;
- Only assets are financed and capital cannot be separated from the entrepreneur as an independent factor of production. Rather, capital must be joined with the entrepreneur – risk must be assumed on capital before a valid profit can be made; and
- Ensuring that actual wealth of society is increased at each step of the finance value chain.

The most preferred basis for Islamic banking and finance model are equity - profit and loss-sharing structures - although debt-based structures like the Murabaha - cost plus profit deferred payment -based transaction - have also been approved by contemporary Islamic Scholars.

The practical implementation of these precepts ensures that an environment of social responsibility, moral values and ethics is engendered. Similarly, the primary economic objectives of sustainable economic growth and of equitable distribution of income are infused into the banking model. The recognised methods of Islamic banking include:

**Mudaraba** (partnership) - Mudaraba is a financing/investment mode where one party (the rabbul mal) provides capital and the other (the Mudarib) management of the enterprise and expertise.

**Musharaka** (equity financing) - is a private equity investment instrument in which the profit is shared between the parties according to a pre-agreed ratio and loss is shared according to the equity.

**Ijara** (leasing) - is a financing instrument that involves the purchase and leasing of an asset to another party.

**Murabaha** (cost plus) - is a financing instrument based on a deferred payment sale in which the acquisition cost of the goods and added profit mark-up is disclosed upfront to the buyer.

# Contents

	<i>Page</i>
New Corporate Identity	2
Vision, Mission, Values and Code of Business Conduct	3
Al Baraka Banking Group	4
Strategic Objectives, Business and Financial Highlights	5
Ten-Year Review	6
Company Profile	7
Directorate and Administration	8
Executive Management	10
Chairman and Chief Executive's Statement	11
Human Resources Report	16
Information Technology Report	18
Corporate Governance Report	19
Sustainability Report	28
Compliance Report	31
Shariah Report	32
Shariah Supervisory Board	33
Directors' Responsibility and Secretary's Declaration	34
Annual Financial Statements	35
Value Added Statement	92
AAOIFI Statement of Financial Position and Statement of Comprehensive Income	93
Al Baraka Banking Group – Holding Company and Subsidiaries	96

## *New Corporate Identity*

Historically, the twelve subsidiaries within the Bahrain-based Al Baraka Banking Group conducted their banking operations under different brands. Al Baraka Bank in South Africa was no exception.

However, in 2009 the various business units came together under a single global and totally unified Al Baraka Banking Group brand.

This single, unified brand allowed the group, in its entirety, to re-position itself in a strong and highly favourable space within the international banking environment.

Al Baraka Bank's new-look has underpinned its ability to refresh its position within this country and strongly reinforces the bank's

influence, as a significant financial institution with an international pedigree, in the South African market.

The re-engineered corporate identity is also in line with the need to portray the image of the bank as a professional business entity, capable of providing banking facilities to clients, conducive to their expectations, as an integral part of one of the largest Islamic banking groups in the world.

Through its new brand, Al Baraka Bank is now able to re-affirm its commitment to the partnership which exists between the bank, its customers and the niche communities it serves in South Africa.



# Vision, Mission, Values and Code of Business Conduct

## Vision

We believe society needs a fair and equitable financial system; one which rewards effort and contributes to the development of the community.

## Mission

To meet the financial needs of communities across the world by conducting business ethically, in accordance with our beliefs, practising the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success.

## Values

**Partnership** – our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff;

**Driven** – we have the energy and perseverance it will take to make an impact in our customers' lives and for the greater good of society;

**Neighbourly** – we value and respect the communities we serve. Our doors are always open, our customers always experience a warm-hearted, hospitable welcome and accommodating service;

**Peace-of-mind** – our customers can rest assured that their financial interests are being managed by us to the highest ethical standards;

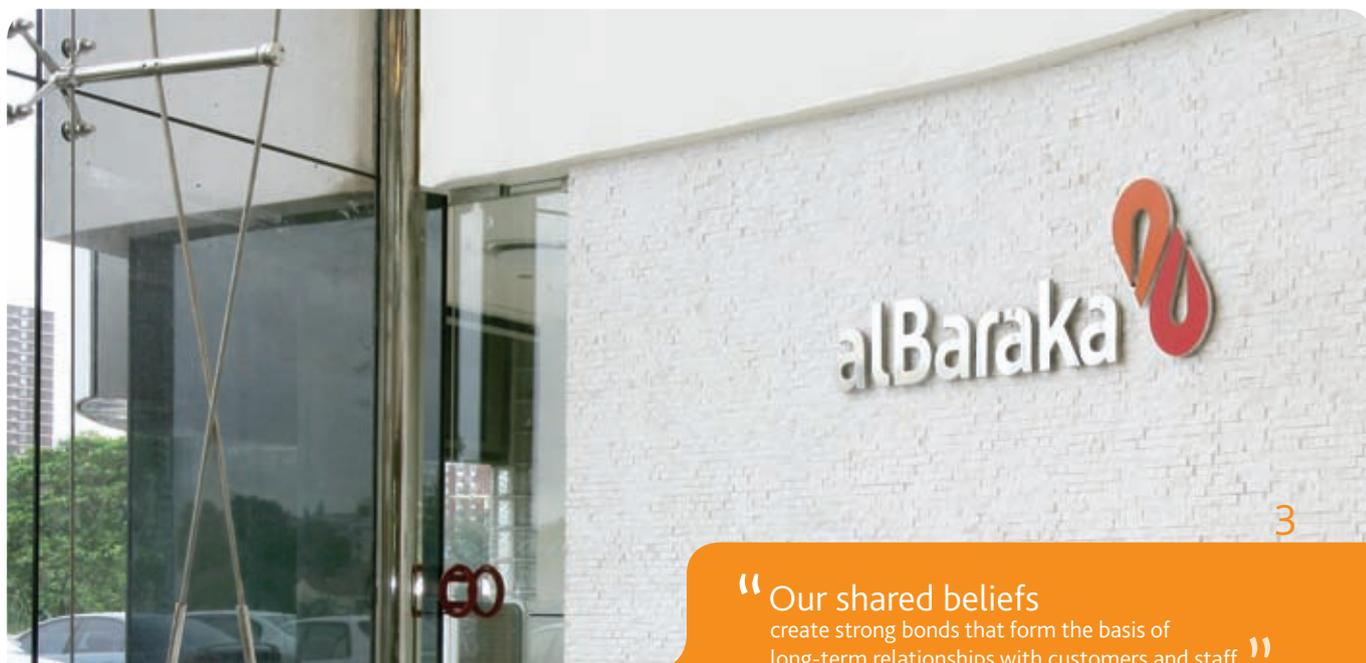
**Social contribution** – by banking with us, our customers make a positive contribution to a better society, their growth and our growth will benefit the world around us.

## Code of business conduct

Al Baraka Bank has in place a Code of Business Conduct which gives effect to the business culture of the financial institution and actions of its employees.

Principles contained in the Code of Business Conduct include:

- Reflecting the Islamic economic system and complying with Shariah requirements in all activities undertaken by the bank;
- Conducting its affairs with integrity, sincerity and accountability, whilst displaying the highest moral standards;
- Achieving customer service excellence as a way of life in a proactive and dedicated way;
- Displaying the highest levels of customer confidentiality at all times;
- Creating opportunities for the commitment, loyalty and growth of staff;
- Conforming to International Financing Reporting Standards and to Accounting and Auditing Organisation for Islamic Financial Institutions Standards, as well as complying with all laws and regulations;
- Addressing all instances of commercial crime by adopting a policy of zero tolerance against offenders;
- Avoiding being compromised by conflicts of interest; and
- Instilling in staff a discipline of avoiding private business relationships with customers and suppliers.



# Al Baraka Banking Group

Al Baraka Bank in South Africa is a subsidiary, or business unit of the internationally-acclaimed Al Baraka Banking Group B.S.C., based in Bahrain and which operates under an offshore licence.

Al Baraka Banking Group is the holder of its shareholders' interests in a number of geographically diverse subsidiaries, incorporated in Algeria, Bahrain, Egypt, Indonesia, Jordan, Lebanon, Pakistan, Sudan, Syria, Tunisia and Turkey. The group is one of the largest international Islamic banking groups in the world. It currently is actively involved in twelve countries around the world and provides its customers access to Islamic banking facilities by way of more than 280 branches.

Al Baraka Banking Group was incorporated in Bahrain in June 2002. The group is listed on the Bahrain and Dubai stock exchanges and has achieved Standard and Poors long and short-term credit ratings of BBB- and A-3 respectively.

The group, which provides a comprehensive range of retail, corporate and investment banking, together with treasury services, all of which are strictly Shariah-compliant, is intent on creating an Islamic banking conglomerate which will have the ability to provide its global customer base with a meaningful bouquet of financial products.

Al Baraka Banking Group was initially established to meet an identified need for the provision of Islamic banking services for Muslims around the world.

Today the group is positioned to capitalise on rapid growth within this critical market.

Al Baraka Bank in South Africa is an important business unit within the international Islamic banking environment and sets out to increase its product and service range here.

After deductions, Al Baraka Banking Group's 2009 net income totalled US\$167,4 million, total assets surged to US\$13,2 billion, while customer deposits and unrestricted investment accounts exceeded US\$11,0 billion in the review period. Such positive results, in the midst of difficult world economic conditions, clearly indicate the group's ongoing commitment to capitalising its subsidiaries around the world – inclusive of Al Baraka Bank in South Africa – and to ensuring improved staffing, usage of technology and controls.

The group's international standing includes the following banking units: Banque Al Baraka D'Algerie in Algeria, Al Baraka Islamic Bank in Bahrain, Egyptian Saudi Finance Bank in Egypt, Jordan Islamic Bank in Jordan, Al Baraka Bank Lebanon in Lebanon, Al Baraka Islamic Bank Pakistan in Pakistan, Al Baraka Bank in South Africa, Al Baraka Bank Sudan in the Sudan, Al Baraka Bank Tunisia in Tunisia, Al Baraka Turk Participation Bank in Turkey, Al Baraka Bank Syria (under formation) in Syria and an Al Baraka Banking Group representative office in Indonesia.



# Strategic Objectives, Business and Financial Highlights

## Primary strategic objectives:

- An increase on returns;
- The promotion of customer service excellence;
- The development of innovative products; and
- The utilisation of enhanced technology.

## Business highlights:

- Launch of new unified group corporate identity in June 2009;
- Al Baraka debit card and electronic banking product launched in October 2009; and
- Head office relocation completed in October 2009 and office officially opened in December 2009.

## Financial highlights:

- |                                  |                                  |
|----------------------------------|----------------------------------|
| • Profits                        | R18,4 million;                   |
| • Earnings per share             | 122,6 cents;                     |
| • Total assets                   | R2,4 billion;                    |
| • Total deposits                 | R2,1 billion;                    |
| • Advances and other receivables | increased by R454,6 million; and |
| • Shareholders' equity           | in excess of R228,8 million.     |

