

As-Salaamu-Alaikum

The year 2001 is likely to go down in history as one of turmoil and strife. This is neither the time nor the forum to discuss the religious or political connotations but, to the extent that the events impacted upon the world economy and its effects upon Albaraka Bank, it deserves mention.

Prior to the events in the USA on 11 September 2001, that country was already experiencing a considerable slowing down in its previously phenomenal level of sustained economic growth. The attacks in New York and Washington dramatically accelerated the decline, particularly in certain related sectors such as the travel industry.

The US economy, as the largest in the world, inevitably influences the global economy and the respective economies of all the constituent countries. South Africa was no exception but our economy had not enjoyed the high rates of growth of many of the principal trading nations and while sufficient to pare our growth rate by about a percent, the events did not result in the same degree of decline in our economy as experienced by some of the leading economies.

Another favourable factor was that the South African economy has become much more diversified over the years and any downturn in commodities was largely balanced by a surge in manufacturing exports boosted by the weakening in the rand. As a barometer of the situation, South Africa's net trade and foreign debt balances are the healthiest for some years.

The continuing decline in the value of the rand, which has been a feature over the past number of years, accelerated and while at the time of writing it has staged one of the strongest recoveries of any currency against the US dollar during the past nine months, the residual effects of the plunge have placed additional strain on our inflation rate and triggered a rise in interest rates. South Africa's financial and monetary authorities have declared themselves perplexed by the behaviour of the rand and President Mbeki instituted an inquiry into the matter.

Other factors widely perceived to have materially influenced the South African economy over the year – and perceptions are often more damaging than realities – included the turmoil in Zimbabwe, the increasingly deleterious effect of the HIV/Aids epidemic upon the sinews of the country, the crime and corruption levels and some trends at the heart of organised labour.

In the practical measure of gain or decline, business showed a fairly patchy picture for the year. As already mentioned, sectors involved in export generally thrived in the climate of significant competitive advantages attributable to the plunging rand. Companies whose business is focused more on imports predictably tended to experience the opposite, but there were exceptions, particularly where their products enjoyed critical demand or wide popularity.

For the banking sector in South Africa, the period under review has not, in general, provided a beneficial climate, particularly for many of the smaller banks. It has been argued that the sector is over-represented and is too sophisticated and

technically advanced for the market it serves. Competition is intense and differential advantage difficult to seek. The result is a blurring of the boundaries within the entire finance industry and a convergence in products and profiles, particularly among the giants in the market place as they strive to attract business.

There have been a number of widely publicised cases of some banks faltering, for various reasons. This has inevitably impacted adversely on public perceptions of the sector as a whole. Fortunately, Albaraka Bank has not been affected by these events primarily because of the confidence and loyal support the Bank enjoys – key factors in the Bank's growth and success.

Strategically, Albaraka Bank's management has focused on the cross-selling of existing products by capitalising on its client base as well as introducing new products to the market. To enjoy optimal benefit from this strategy, emphasis is being placed on the segmentation of the customer base and the identification and provision of products and services appropriate to the different segments.

In this variable scenario, Albaraka Bank enjoyed a better year, which is discussed in more detail in the Chief Executive's Review.

