

Chairman and Chief Executive's Statement

Economic summary

It was emphasised in Albaraka Bank's 2007 annual report that 2008 would see the South African economy facing its biggest challenges in several years. Whilst it was clear that growth in consumer spending would slow because of high and rising interest rates, the real concern related to the possibility of a sharp down-turn in global economic growth in the wake of the sub-prime crisis which had broken out in 2007.

In the event, although the domestic political scene proved extremely dynamic and turned out substantially different to that which most analysts might have expected, by far the biggest influence on the domestic economy was the onset of global financial turmoil.

The year began with a devastatingly negative concoction of issues, including an electricity crisis, worries about the course of future economic policy in the wake of the outcome of the ANC National Convention at Polokwane and the onset of a vicious down-turn in global equity markets. Fortunately, sentiment improved in the second quarter with the dissipation of electricity outages, an increase - to record levels - in commodity prices and an associated recovery in equity markets. However, this reprieve was short-lived. The third quarter witnessed the onset, in earnest, of a more general global financial and a related collapse in commodity prices. It also coincided with the recall of Mr Thabo Mbeki as President of the Republic of South Africa, raising associated anxieties about the future domestic political environment.

However, the dominant driver of reduced economic activity in the second half of 2008 was the lagged effect of progressive increases in interest rates from mid-2006 onward and the erosion of disposable income, wrought by huge increases in inflation resulting from higher food and oil prices. The increase in inflation and further increases in interest rates experienced during 2008 were exacerbated by a sharp depreciation in the value of the Rand as a result of increased risk aversion towards emerging markets.

Looking ahead at 2009, the principal determinant of the extent to which domestic economic activity will decline further or might stabilise and recover, is likely to be the course of the global economy. It is currently mired in the most severe recessionary conditions since World War II. The question on the minds of most people is whether or not this recession is going to gain momentum. If this turns out to be the case, then South Africa's commodity exports will suffer further declines over and above those already experienced. The Rand will fall significantly further under the weight of increased risk aversion amongst international investors, inflation will increase and interest rates will be unable to decline as much as intended. Domestic economic growth will suffer further and, as a consequence, the South African economy could enter full-scale recession.

However, against this one has to weigh the extraordinary fiscal and monetary stimulus currently being debated and gradually introduced in leading industrialised countries. The election of Barack Obama as President of the United States of America has heightened the probability of the implementation of highly stimulatory fiscal and monetary policy in the world's largest economy. There is a high chance that this will assist in arresting the depth of domestic economic decline in the medium-term.

Nonetheless, in the medium-term, by the beginning of 2010, one could well begin to see some revival in global economic conditions and in commodity prices.

There are other corresponding influences on the South African economy which are likely to see it gradually recovering during the course of the coming year. To begin with, one has already seen a dramatic reversal in recent months in the erstwhile rising trend of fuel prices. The 40% reduction in the petrol price since August 2008 alone will help restore 2% of disposable

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income. Allied to this trend, inflation, more generally, is likely to fall sharply in coming months, not only because of declining commodity prices, but also for technical reasons. This enhances the chances of significant further interest rate cuts.

Secondly, the economy is set to reap the benefits of a much lower exchange rate in terms of helping to insulate the Rand value of exports from the full extent of the ravages of lower dollar commodity prices. It should also have the effect of enhancing the competitiveness of domestically produced goods at the expense of more expensive imported goods.

Thirdly, as the year progresses, one is likely to witness increased optimism relating to available opportunities resulting from the country's hosting of the 2010 FIFA World Cup. In addition, the hosting of the Confederations Cup in mid-June, coupled with the British Lions rugby tour of this country and the hosting of the Indian Premier League cricket tournament are likely to provide an additional source of economic activity, even as early as 2009. The continuation of infrastructural investment projects aimed at gearing up for the huge and unique FIFA World Cup sporting showpiece, should continue exerting knock-on benefits throughout the domestic economy.

Finally, it should not be forgotten that South Africa's financial system is in a much healthier state than that of its counterparts overseas. It has been relatively untouched by the contagion experienced by many financial institutions resulting from the inability of borrowers to meet their debt commitments. The ratio of deposits to assets is far higher than in advanced economies.

There is, therefore, considerable scope for the domestic economy to sustain positive economic growth in the year ahead, albeit modest by recent standards. However, should global economic turmoil prove to be significantly deeper and have a more lasting immediate negative impact, then some of this relative optimism will prove unfounded.

Albaraka Banking Group

During the 2008 financial year the internationally-acclaimed Albaraka Banking Group B.S.C. (ABG) increased its shareholding in its South African subsidiary, Durban-based Albaraka Bank Limited, from 51,7% to 53,6%. The step is in line with ABG's active interest in increasing its influence in Africa generally and Southern Africa specifically.



ABG, based in Bahrain, has an interest in banking units in 12 countries around the world, employing some 5 500 members of staff. The group has assets in excess of US\$11,0 billion and achieved net profit of US\$201,0 million for the 2008 financial year.

ABG opened new offices in Indonesia in the middle of 2008 and is in the process of securing a licence for its new banking unit in Syria. The group has also launched an ambitious world-wide re-branding exercise, geared to creating a single identity for all the banking units - including South Africa - within the ABG stable, together with alignment to the group's business objectives. There can be no doubt that this will re-position ABG as a strengthened and unified brand world-wide; a truly professional leader in Islamic banking within the global financial arena. Importantly, its transformation comes in the wake of wide-scale financial turmoil resulting from the much-publicised credit crunch. Because of its strict adherence to Islamic business principles, ABG has been spared many of the effects of the banking sector meltdown.

The Islamic banking model has proved more resilient than conventional banking and this, together with its brand consolidation, will combine to position ABG in a strong and highly favourable space within international banking into the future.

Shari'ah banking

Albaraka Bank is the only fully-fledged Islamic bank in South Africa and remains wholly committed to ensuring the bank's Shari'ah compliance.

The bank is a member of the highly respected Bahrain-based Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), an organisation which lays down the very standards by which we abide in our day-to-day business operations. In addition, we acknowledge and recognise the vital role played by the local Shari'ah Supervisory Board, an independent body of specialist jurists in Islamic commercial jurisprudence, which effectively directs the activities of the bank with regard to Shari'ah. Finally, we have in place various interventions to ensure the training of staff in Shari'ah compliance and, equally, are applying such standards to our computer processes.

Accordingly, we take great pride in our internal Shari'ah controls and in actively demonstrating that our bank is 'walking the talk' as regards ongoing compliance with Shari'ah. We are also pleased to display our Shari'ah Certificates, issued to us by the Shari'ah Supervisory Board, in our offices and branches for the benefit of both clients and prospective clients.

Indeed, we believe our dedication to Shari'ah principles was strengthened still further during the 2008 financial year as a consequence of the ABG International Shari'ah Board holding its annual meeting in South Africa for the first time.

During the review period our ongoing Shari'ah compliance was confirmed through a series of Shari'ah audits conducted by the Shari'ah Supervisory Board, revealing that we had met the rules and principles set by AAOIFI.

Corporate governance

Albaraka Bank's board of directors has a long-held commitment to adherence to best practice as regards our activities within South Africa's banking sector.

We believe strongly in the corporate governance ideal and are committed to entrenching the principles contained in the King Report for Corporate Governance for South Africa. Indeed, we have already implemented aspects of King III in our ongoing promotion of transparency and accountability, especially with regard to the Corporate Amendments Act.

Chairman and Chief Executive's Statement (Continued)

We have taken steps to ensure that membership of our Audit Committee is restricted to only non-executive directors and, as regards our risk framework, have appointed a full-time risk manager as a tangible means of strengthening risk process management, in line with the group's Risk Management Plan.

We place great emphasis on the need for effective risk management and are proud of the fact that in this regard we meet all regulatory requirements. Pleasingly, too, and in line with the regulatory compliance requirements of the Reserve Bank, we successfully introduced the Basel II reporting system to the bank, effective 1 January 2008. The implementation of this project met the Reserve Bank's deadline, while simultaneously achieving the internal benefits of improved business processes.

In addition, we have made a new executive appointment responsible for the overseeing of legal compliance at the bank, thus further strengthening our adherence to good corporate governance.

South African financial performance

Critically and in spite of the legacy of the international financial crisis currently blighting the industry, the 2008 financial year proved successful for our bank, enabling us to continue the growth trend we have enjoyed in the past several years.

Given industry constraints, we are pleased to report that we have posted excellent financial results for the period under review. This is particularly gratifying coming on the eve of our bank's 20th anniversary, which we celebrate in 2009, and is indicative of the progress we have made as pioneers of Islamic banking in South Africa.

Profit for the year increased by 19,5% to R21,7 million, which equated to a similar percentage increase in basic and diluted earnings per share to 144,9 cents. This was attributable, primarily, to an increase of R18,6 million, or 26,2%, in net income before impairment for credit losses to R89,5 million. This was mainly as a result of a higher mark-up earned on the advances book, offset by an increase of 32,9% - or R26,4 million - in income paid to depositors.

Critically, given the prevailing economic turmoil, the bank's continued application of stringent credit approval and pro-active monitoring process, our arrears ratio stood at a very respectable 1,3% of our advances book at year-end.

However, while we increased our deposit book by R174,7 million, or 12,1%, as was to be expected in terms of the prevailing trading conditions, our gross advances book to customers experienced a relatively slower growth of R91,0 million, or 6,9%.

Albaraka Bank remains convinced of the need to continually look to expanding its bouquet of products for the benefit of its clients and in an effort to grow its client database through the attraction of new clients. During the 2008 financial year, we successfully secured a foreign exchange licence, enabling us to sell foreign exchange within the international travel market. Such services are currently limited to the buying and selling of notes and traveller's cheques - activities which, by definition, add value to our other products, most notably our Haj Investment Scheme. In addition, the review period saw the execution of very necessary groundwork surrounding the planned introduction of another first for Albaraka Bank... a debit card.

Our debit card product project heralds a major development milestone in the history of our bank. We believe the introduction of the debit card to our product offering will take our bank to a new level and provide our clients with unprecedented access to their funds.

The Albaraka Bank debit card is to be introduced during the course of 2009.

Dividends

We are pleased to be able to report that for the third consecutive year Albaraka Bank has declared a dividend for the benefit of our shareholders.

In the 2006 financial year we declared a 20c per share dividend, followed by a dividend of 25c per share in the 2007 financial year. In 2008 the board approved a dividend of 35c per share to all shareholders.

Financial Sector Charter - Rating

Albaraka Bank is committed to the furtherance of Broad-Based Black Economic Empowerment (B-BBEE) principles throughout our business operations. In the 2007 financial year we were, therefore, proud to have been accredited with an 'A' rating, equating to 83,1%, in terms of the Financial Sector Charter.

The 2008 financial year brought us an even greater empowerment accolade, an 'A' rating, equating to 91,46%, a fitting response to our continued focus on the B-BBEE ideal within South African banking circles.

Head office relocation and facilities growth

The need to vigorously promote the professional image of our bank and to provide banking facilities to our clients conducive to their expectations, coupled with the fact that we are a subsidiary of one of the largest Islamic banking groups in the world, has necessitated a revision of our infrastructure.

As a result, a multi-million Rand new and iconic head office is under construction at Durban's Kingsmead Office Park - the city's emergent financial hub. The 4 000 square metre office complex, designed to accommodate the recent growth of the bank, was started towards the end of 2007 and we expect to move into the new premises during the second quarter of 2009. The easily accessible new structure will house our head office business component, as well as our Durban branch and our existing Durban corporate office.

In addition, we will open a new branch of the bank at Overport, on Durban's Berea, for the further convenience of clients. This will bring our South African footprint to six branches and three corporate offices nationally, with an additional corporate office scheduled for introduction in Johannesburg during the course of 2009, adding to our existing corporate presence in Durban, Port Elizabeth and Cape Town.

Corporate social investment

We at Albaraka Bank recognise that we operate in a developing country, a country still wracked by poverty and a country in dire need of significant socio-economic upliftment.

We acknowledge, too, that business has a role to play in impacting positively on the socio-economic issues besetting South Africa. In view of this fundamental belief, we have in place an active corporate social investment programme, geared to tackling humanitarian, education, poverty alleviation and health concerns.

Our corporate social investment activities, therefore, remain a high priority for the bank. As a local subsidiary of an international banking group, our location in South Africa essentially means we are well placed to assist those in the greatest need.

Chairman and Chief Executive's Statement (Continued)

The 2008 financial year saw the bank commit some R10,4 million through a carefully orchestrated donations and advances programme to a range of local charities and charitable organisations throughout the country.

Future Prospects

Turning to the future, we believe that the niche banking sector in which we operate in South Africa holds continued growth potential for Albaraka Bank, in spite of an economy in decline.

The introduction of our important new product offerings, coupled with our continued high performance level stand us in good stead as we strive for even greater heights into the future. We aim to further enhance the image of the bank locally through both our infrastructural development and by way of the role we will play in becoming a part of a unified international brand within ABG, providing our clients with a banking institution whose corporate identity is interlinked with a world-wide network. In addition, service is the watchword for our bank; we will invest significantly in our human resources going forward to hone our service ethic, transforming our service delivery into a way of life, thus far exceeding our clients' banking service level expectations.

Appreciation

Albaraka Bank's impressive financial performance under generally difficult economic circumstances during the 2008 financial year is, in no small measure, the result of the dedication of our board, executive, management and staff to ensuring the continued growth of our bank. We also thank our loyal customer base for its support.

We therefore take this opportunity to acknowledge the vital role these individuals have played and continue to play in taking our business forward at every level. We also congratulate Mr Mahomed Vahed on his executive appointment during the review period.

We must also thank ABG most sincerely for its unswerving support for our bank and for the strategic direction it affords us.

It would be remiss of us not to thank former external auditors, KPMG, for their professional services during past years. A close working relationship was developed between staff of the auditing firm and ourselves, which provided us a high degree of comfort. Their business-like approach was greatly appreciated.

Finally, we would also like to welcome and thank our new external auditors, Ernst & Young Inc. - the firm which now provides group auditing services - for seamlessly picking up the reins during the 2008 financial year.

May Allah Ta'ala continue to shower us with His mercy and blessings in the times ahead.

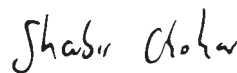


Adnan Ahmed Yousif

Chairman

12 March 2009

Durban



Shabir Chohan

Chief Executive