



ALBARAKA BANK

**Banking only one way,
the Islamic way**



Islamic Banking Explained

Islam permits trade and forbids interest, as stated in the Holy Quran.

However, Islam does permit the making of a profit and this forms the basis of the Islamic financial system, insofar as every technique of Islamic finance allows for the making of a profit by the party that provides the risk capital, as well as the party that uses the capital.

As a concept, Islamic banking was developed as a result of the religious prohibition of the payment or receipt of interest. The fundamental principles of Islamic banking go back over 1 400 years. They are set out in the Shari'ah, the primary sources of which are the Quran and the Sunnah¹. Today, these principles form the basis of contemporary Islamic financial products and services. Shari'ah scholars and practitioners have identified the following four pillars as guiding principles of conducting Islamic banking business:

- Prohibition of interest or usury;
- Ethical standards;
- Moral and social values; and
- Liability and business risk.

In essence, the basis of Islamic finance and banking is equity - profit and loss sharing schemes - whereas conventional banking uses debt - interest - as its underlying principle.

Key features of Islamic banking include:

- Ensuring that wealth is generated against money created in the banking system; and
- The financing of assets only, ensuring that at each step the actual wealth of society is increased. This is regarded as a socially responsible, ethical and moral banking method, operating - as it does - under Shari'ah, or Islamic law principles.

Recognised modes of Islamic banking include:

- Mudaraba (partnership) - Mudaraba is an Islamic mode of financing between the bank, providing a specified amount of capital, and the Mudarib, providing management for carrying out the venture, trade or service with a view to earning profit;
- Murabaha (cost plus) - charging a fixed (known) profit on the sale of goods or assets (used for property and asset finance);
- Musharaka (equity financing) - profit or loss is shared according to equity (can be used for home finance); and
- Ijara (leasing) - entails the rental of a physical asset to another party (used for asset finance).

Profit, according to Islamic principles, cannot be made if it violates religious law or is harmful to stakeholders, such as companies whose trading activities involve alcohol, gambling and interest-bearing institutions. Thus, it may be held that Islam emphasises responsible, ethical business activities.

Islamic banking relates to social justice and equitable profit partnering.

The involvement of institutions and governments has led to the transformation of theory into practice, resulting in the establishment of interest-free banks. Albaraka Bank, established in Durban, South Africa in 1989, was born out of this process. Today Islamic banks are active in some 42 countries around the world.

Sunnah¹ : A word spoken, act done or ratified by the Prophet Muhammad, Peace be upon Him.

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Vision, Mission and Code of Business Conduct

Vision

Our Vision is to be an institution that endeavours to reflect the Islamic economic system in all its activities.

We desire to be an institution that is responsive to the socio-economic needs of the people of South Africa, irrespective of religion, race or gender.

Albaraka Bank is creative and innovative in establishing a stimulating and challenging environment that makes optimal use of technology to develop products and services. In this way we meet the needs of our customers in an effective and cost-efficient manner and generate an appropriate return for our shareholders and depositors.

We ultimately envisage an economic order in which our employees and our customers will take full advantage of the opportunities presented to them for their economic growth and social well-being, in accordance with Islamic economic principles.

Mission

We are dedicated to becoming the leader in the promotion of socio-economic development through the application of Islamic economic principles and values, providing optimum returns to our shareholders and investors through partnership banking on a risk-reward basis.

Code of Business Conduct

Albaraka Bank has developed and implemented a Code of Business Conduct which gives effect to the culture of the organisation and the business activities of its members of staff.

The principles contained in the bank's Code of Business Conduct include:

- Reflecting the Islamic economic system and complying with Shari'ah 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 pro-active 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 Financial 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.

The Albaraka Banking Group

Albaraka Bank Limited is a subsidiary of the international Albaraka Banking Group B.S.C. (ABG), which is based in Bahrain and which operates under an offshore licence.

ABG is the holder of its shareholders' interests in a range of geographically diverse subsidiaries and representative offices, incorporated in Algeria, Bahrain, Egypt, Indonesia, Jordan, Lebanon, Pakistan, Sudan, Syria, Tunisia and Turkey.

ABG is one of the largest international Islamic banking groups in the world and currently operates in no fewer than 12 countries around the globe, providing customers access to Islamic banking facilities through more than 280 branches. ABG was incorporated in Bahrain in June 2002 and is 55% owned by the Dallah Group and 45% by strategic shareholders and the public.


The group is listed on the Bahrain and Dubai stock exchanges and enjoys Standard and Poors long and short-term credit ratings of BBB- and A-3 respectively. ABG offers retail, corporate and investment banking and treasury services strictly in accordance with the principles of Shari'ah. ABG is striving to create an Islamic banking conglomerate capable of providing its world-wide customer base with a significant array of products and services strictly conforming to the principles of Shari'ah. ABG was born out of the need for an Islamic banking service for Muslims around the world and the group is today well placed to take advantage of rapid growth within this burgeoning market.

Albaraka Bank in South Africa, as a subsidiary of ABG, is regarded as an important business unit within the international Islamic banking environment and is committed to further increasing its service footprint in this country.

ABG's 2008 net income amounted to US\$201,0 million, while total assets topped US\$11,0 billion in the same period.

Such impressive results are a reflection of the group's commitment to capitalising its global subsidiaries, including Albaraka Bank in South Africa, and world-wide improvements to staffing, technology and controls.

The group's international footprint currently includes the following banking units: Jordan Islamic Bank in Jordan, AlBaraka Islamic Bank in Bahrain, AlBaraka Islamic Bank in Pakistan, Banque AlBaraka D'Algerie in Algeria, AlBaraka Bank Sudan in Sudan, Albaraka Bank in South Africa, AlBaraka Bank Lebanon in Lebanon, Bank Et-Tamweel Al-Tunisi Al-Saudi in Tunisia, The Egyptian Saudi Finance Bank in Egypt, AlBaraka Turk Participation Bank in Turkey, AlBaraka Bank Syria (under formation) in Syria and an ABG representative office in Indonesia.



MISSION STATEMENT

We are dedicated to becoming the leader in the promotion of socio-economic development through the application of Islamic Economic Principles and Values, providing optimum returns to our shareholders and investors through partnership banking on a risk-reward sharing basis.

Strategic Objectives and 2008 Highlights

Albaraka Bank - primary strategic objectives

- Increasing returns to depositors and shareholders;
- The promotion of customer service excellence;
- The development of innovative products; and
- The utilisation of enhanced technology.

Albaraka Bank - 2008 financial and operational highlights

- Profits up by 19,5%;
- Earnings per share up 19,5%;
- Total assets totalled R1,9 billion;
- Total deposits exceeded R1,6 billion;
- Advances and other receivables increased by R126,4 million;
- Shareholders' equity in excess of R200,0 million;
- Financial Sector Charter rating an 'A' rating, equating to 91,46%; and
- Foreign exchange licence awarded a limited foreign exchange licence.

Albaraka Banking Group's 2008 highlights

- Total assets exceeded US\$11,0 billion;
- Profits totalled US\$201,0 million;
- Customer deposits and unrestricted investment accounts exceeded US\$8,8 billion; and
- Representation 12 countries and more than 280 branches.

