
Economic overview

The South African economy was not expected to grow particularly strongly in 2012, mainly because the country's most important trading partner, Europe, would underperform significantly. European countries were engulfed in a programme of fiscal austerity aimed at constraining further increases in Government debt and, as a result of subdued exports to a market which accounts for 30% of South Africa's exports, weighed down on domestic economic growth.

Concerns regarding the possibility of a renewed downturn in the US economy associated with that country's fiscal problems and indications of slowing growth in many emerging markets – most notably China – also helped depress domestic growth.

Confidence was further eroded by industrial unrest on South Africa's mines, its road freight transport industry and its agricultural sector. Unrest sources were multi-faceted and, in part, linked to high levels of inequality and the desire by the working class to

into reality, but frequent outbreaks of social unrest remain disturbing. The impact of social and industrial unrest and associated downgrades of South Africa's credit rating have helped to weaken the Rand so as to render domestic industry more competitive in the short-term. However, possible increased inflationary pressures are likely to prevent interest rates from falling further.

Looking ahead, the global environment shows signs of improvement on the back of massive additions of liquidity aimed at resurrecting growth and preventing another major slowdown.

This should assist in sustaining domestic economic growth at a reasonable level. Encouragingly, business opportunities are developing in the rest of sub-Saharan Africa, the benefits of which should rub-off, to some extent, on South Africa's own economic performance. In the longer-term, concerns remain that the build-up of sovereign debt in developed economies will require severe long-term fiscal austerity, weighing down on both the world and

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make up for an erosion of their disposable income through higher inflation by demanding huge wage increases.

The unrest was also derived from political tensions ahead of the ANC's Mangaung Elective Conference in December. In the event, the immediate outcome of the conference was more favourable than many had anticipated. The election as deputy president of the ANC of Cyril Ramaphosa, who headed the National Planning Commission responsible for the National Development Plan designed to tackle South Africa's structural economic weaknesses, provides hope that issues limiting sustainable growth in the economy will be addressed. The National Development Plan encapsulates proposals for improving education and skills development, promoting small business activity and defusing tensions between business and labour, all critical to improving productivity and reducing unemployment, poverty and inequality.

In addition, the plan deals with factors such as tackling corruption, encouraging infrastructural development, improving Governmental processes to enhance such development and creating an enabling environment in which Government and business may co-operate to address challenges. It is too early to assess whether this new hope will translate

domestic economic environments for years to come.

The artificial stimulus provided by loose monetary policy globally is not a sustainable solution, even if – in the shorter-term – it may boost financial markets. For South Africa to prosper in such an environment, it is essential that the country address its structural weaknesses and to diversify its trade and investment relations into rapidly-growing emerging markets.

Al Baraka Banking Group

The highly acclaimed Bahrain-based Al Baraka Banking Group, with subsidiary banking units in no fewer than 15 countries around the world, is a major shareholder in South Africa's Al Baraka Bank.

Employing some 10 000 members of staff world-wide, the group's assets totalled US\$19,0 billion and net income generated totalled US\$235,0 million in the 2012 financial year.

The group's new state-of-the-art head office in Bahrain is to be completed during the course of 2013 and stands as a clear reflection of Al Baraka Banking Group's cutting-edge position in the global banking environment and its status as the world's principal Islamic banking group – an image it projects throughout its subsidiary network.



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Such is the esteem in which the group is held, that Mr Adnan Ahmed Yousif, its president and chief executive – who is also chairman of the South African unit – was presented with the 2012 LARIBA Award for Excellence in Achievement in October 2012. The award was made in recognition of his leadership role in consolidating and operating one of the largest Islamic banking groups in the world. The humbling accolade has spurred the group to redouble its efforts to continue the pioneering work first initiated by HE Sheikh Saleh Kamel, chairman of Al Baraka Banking Group.

In looking forward, the group has established a high-powered think-tank, involving representatives from a number of its international subsidiaries, to give due consideration to how best existing and future information technology systems and solutions may be effectively harnessed for the betterment of the group and its subsidiaries and the enhancement of its service of clients globally.

Shariah banking

Adherence without compromise to Shariah compliance is – and remains – the cornerstone of Al Baraka Bank's existence in South Africa.

We regard such compliance as paramount, given our status as South Africa's only fully-fledged Islamic bank and, accordingly, attribute extensive resources to staff training and interventions to improve controls and structures in the pursuit of unquestionable adherence.

In view of the importance we accord Shariah compliance, and as has been previously reported, our bank is a member of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), widely acclaimed for the standards it sets. These are the very standards to which we adhere in the execution of our business operations. We also take guidance from the Shariah Supervisory Board, which is an independent body of specialist jurists in Islamic commercial jurisprudence.

Lastly, we display – throughout our national network of offices and branches – our Shariah Certificate; a document which is our pledge to clients, potential new clients and other stakeholders that we, at Al Baraka Bank, will continue to remain resolute in our commitment to Shariah.

South African financial performance

Coming off the back of conservative results since the 2008/2009 global slow-down, Al Baraka Bank achieved its best ever results in the 2012 financial year.

This is indicative of the fact that our pragmatic approach, austerity measures implemented and adoption of a range of new and innovative interventions to promote business growth since the ravages of the 2008/09 global financial melt-down

have paid handsome dividends. Our 2012 financial year's results indeed reflect a paradigm shift and provide the ideal springboard to a new and sustained growth trajectory.

The financial year saw growth in the bank's gross advances book of 15,0% or R356,6 million, while the deposit book grew by 15,3% or R440,5 million to R3,3 billion. The equity finance book grew by 18,8% or R86,6 million. After allowing for profits shared with and paid to depositors, our net income before impairment for credit losses increased by 16,9% to R124,1 million. Improved fee and commission income and other income gave effect to increasing the bank's net income from operations by R20,6 million or 16,5% to R145,8 million. Total assets exceeded R3,7 billion.

During the review period we worked especially diligently to introduce financial products to close the loop on our product bouquet. Our efforts ensured the provision of a full range of products, meeting requirements to make the transition to become a fully-fledged and competitive commercial bank.

This was a momentous milestone in our 24-year history, serving the public as a niche-market financial institution and laying the foundation necessary to ensure that Al Baraka Bank is able to take its rightful place as a significant player in South Africa's financial sector. We have worked tirelessly for some years to reach our goal of becoming a commercial bank and regard this as a major step in the bank's ongoing development. Whilst we most certainly serve – in the main – an important and significant niche market in South Africa, by making the transition to commercial bank status allows us now to shed the small, niche bank persona.

Our product growth during the review period included making a noteworthy change to our foreign exchange offering.

Our bank has enjoyed Authorised Dealer with Limited Authority status, allowing for retail foreign exchange and an ability to purchase and sell foreign bank notes to clients, since 2008. However, it was always our intention to move the bank to the next level, becoming an Authorised Dealer. This ambition was realised in the 2012 financial year. The new licence opened the door to our launch in December 2012 of a full suite of international banking products designed to allow our corporate clients to transact seamlessly with the rest of the world by offering them an efficient, professional and personal service to establish documentary credits, negotiate or pay bills or make telegraphic transfers for imports. In addition, it further enabled the bank's ability to leverage off the client bases of Al Baraka Banking Group and its global subsidiaries.

Having a full foreign exchange licence clearly places Al Baraka Bank in an advantageous and privileged position as ours is one of only 24 institutions in

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

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South Africa able to offer a complete bouquet in international banking.

This milestone, coupled with our existing range of traditional commercial banking products, was further augmented in 2012 with the introduction of a cheque book facility. Internal trials went live in October 2012, with full roll-out to interested clients at the beginning of January 2013. The move was in answer to rising demand from our client base for a cheque facility in spite of the growth of online banking and a decrease in maximum cheque values. By providing our private and corporate clients access to a cheque account, we have added a complementary product to our existing payment channels offering.

Ours is a commercial South African bank, offering a full range of products and with significant international links, as an integral and important subsidiary to one of the largest Islamic banking groups in the world. It is our intention, therefore, to capitalise on our new-found position of financial sector strength to further grow our product portfolio into the future.

Our new product introduction initiatives of 2012 were positively supported by the exceptional performance of our Shariah-compliant unit trust, the Old Mutual Al Baraka Equity Fund. Old Mutual became involved in this fund in 2010 and it was rated as both one of the top-performing general equity funds in South Africa and one of the foremost Shariah-compliant equity funds in the world during the 2011 financial year. Pleasingly, this impressive performance extended through the period under review.

Access to our bank by clients and prospective new clients is of paramount importance to us and we place a high priority on identifying ways and means to provide facilities to our ever growing client base. In 2011 we extended our national network of seven branches and three corporate offices by opening a business office in Killarney, Gauteng. The office, opened in March 2012, aiming to service the needs of the area's professional market. The business office proved an instant success, exceeding expectations and bringing much needed financial services to role-players in the area. Such was the office's impact that we commenced the process of identifying a regional office in Gauteng which, once established, will increase our footprint in the country.

A 2011 decision, based on professional advice received, to take up the residual assets and liabilities of our wholly-owned subsidiary company, Albaraka Properties Proprietary Limited, in 2012 followed by the dissolution of the subsidiary, was rescinded during the review period. Following a thorough investigation, we believe it not to be in the best interest of the bank to follow-through on the original decision. We, thus, continue operating Albaraka Properties Proprietary Limited.

Further to our property development activities, a decision relating to vacant land, owned by the bank and currently being used as parking, adjacent to our Durban head office at Kingsmead Office Park, was made during the 2012 financial year. Consideration is now being given to the best development option for this portion of land.

Finally, the benefits of a sizeable in-house, back-office business process re-engineering initiative, implemented in 2011, manifested themselves during the period under review. Actions to improve client application times, so enhancing customer service experiences, proved hugely successful and resulted in the upgrade of our innovative Credit Application Processing System. It is envisaged that the continued application of this system into the future will take our service delivery to a new level.

Dividend

The bank takes pleasure in the fact that for the seventh consecutive year we have been in a position to pay a dividend to shareholders.

The bank's board approved a dividend of 45 cents per share for the 2012 financial year.

Corporate governance

Al Baraka Bank fully embraces the principles of fairness, accountability, responsibility and transparency, as referred to in the King Report on Corporate Governance for South Africa (King III).

We recognise these principles as being the pillars of sound corporate governance; pillars which, if adhered to, provide a business with integrity in the eyes of all those with whom such an enterprise interacts. In our every dealing and relationship with stakeholders, we actively strive to give effect to sound and ethical governance behaviour as – and in an effort to remain – a good corporate citizen.

Al Baraka Bank consciously endeavours to remain at the forefront of the financial environment in terms of our commitment to King III and, in so doing, regularly reviews and benchmarks its governance principles against best practice.

In keeping with this, our remuneration policy will again be submitted to our shareholders at our next annual general meeting. They will be required, on a non-binding basis, to vote on the policy.

Given that our bank operates within a highly structured, regulated and legal environment, we have pro-actively addressed the Basel III criteria, putting into place – by way of an especially convened committee – a range of measures designed to ensure the bank's full compliance with such criteria. We also continue focusing on evolving legal circumstances, recently adopting, through shareholders, a new Memorandum of Incorporation in order to meet the requirements of the Companies Act, No. 71 of 2008, as amended.



Information technology

The 2013 financial year provided the bank the opportunity to continue deriving the benefits of our new banking system, the Equation Banking and Branch Automation System, introduced in 2010.

In addition, we began and will continue providing inputs to the Bahrain-led initiative to develop information technology systems and solutions designed to take the group forward in an effective manner, thereby enhancing the financial services offered to clients.

Corporate social investment

The socio-economic empowerment of South Africa's disadvantaged members of society, irrespective of race, gender or creed, remains a focus for our bank.

We acknowledge the need for private sector intervention in this arena and, accordingly, continue delivering on our broad five-point Corporate Social Investment programme which was initiated in 1994 for the benefit of those in need in the fields of education, healthcare, poverty alleviation, humanitarianism and security.

During the 2012 financial year Al Baraka Bank donated funds totalling R4,2 million to deserving organisations and causes across South Africa and we remain committed to assisting in making a positive difference to the lives of the needy in this country.

Future prospects

The bank's primary focus for 2013 and beyond is to increase its traditionally low levels of non-funding income through services it can now offer as a fully-fledged commercial bank. We are intent on looking to create additional and alternative revenue streams within the fields of electronic banking, unit trusts and foreign exchange.

In order to enhance our growth trajectory for the further stimulation of the development of the bank, we aim to give serious consideration to the injection of additional capital and, in particular, to continue developing and introducing innovative financial products for the benefit of existing clients and the attraction of prospective new clients. In this regard, a previous review of the feasibility of introducing Takaful (Shariah-compliant Islamic insurance), which was at the time deferred, is to be renewed in line with increasing public interest in such a product.

We are also in the preliminary stages of looking into the possibility of developing and rolling-out a mobile banking product.

In conclusion, we recognise that the future in South

Adnan Ahmed Yousif
Chairman

Africa's financial sector is not without its challenges, given the ongoing economic stagnation in parts of Europe and the United States of America, which continues to have a ripple effect around the globe.

However, having developed a full range of products, which classifies our business as a fully-fledged commercial bank – and one which is also Shariah-compliant – we are quietly confident about being able to continue showing positive growth and will set-out now to significantly grow our client base amongst all sectors of the market.

Appreciation

Interventions designed to improve profitability and increase assets, which were implemented in the 2011 financial year in response to the negative impact of the 2008/09 recession and sluggish economic recovery since, have paid off handsomely, given our impressive 2012 results.

This performance is, in no small measure, due largely to the commitment and diligence of our board, executive team and, of course, our staff. We must, therefore, extend our most grateful thanks to all those associated with the bank for the delivery in 2012 of a magnificent business effort.

Credit must go to members of the board whose studied guidance of the bank and strategic inputs has kept our business on a satisfyingly upward trajectory in spite of the economic challenges we have faced in recent times. Their banking expertise and business acumen is an invaluable asset to our financial institution.

Of course, we must extend a sincere vote of thanks to Al Baraka Banking Group and the immense role it has played and, indeed, continues to play in support of our business activities in South Africa. Such support has most certainly provided the foundation for the bank's growth.

To those with whom we have partner relationships – our shareholders and private, business and corporate clients – we offer our profound thanks. Your continued backing of the bank is the driving force behind our business success.

We commit ourselves to the further growth and development of the bank as a mainstream, commercial banking institution and a financial role-player of growing stature in South Africa's financial sector.

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

Shabir Chohan
Chief executive