

# Chairman and Chief Executive's Statement

## Economic overview

The performance of the South African economy over the past year turned out to be somewhat weaker than had been hoped for a year ago.

Global economic growth, especially in the first half of 2013, turned out to be softer than previously anticipated. However, South Africa's economic performance deteriorated in its own right as well. Business confidence declined as a result of heightened industrial action and a growing disillusionment with the government's ability to press through reforms which would overcome the structural weaknesses impeding the attainment of higher sustainable growth.

Currency depreciation and associated increased inflationary pressures created downward pressure on disposable income causing consumption expenditure to come under pressure. Lacklustre fixed investment associated with poor business confidence and a lack of implementation capacity in government, exacerbated economic weakness.

Fortunately, 2014 should show some improvement. Global economic growth appears to be picking up momentum, finally responding to the continuation of very loose monetary policy in the US and elsewhere.

Together with a much more competitive environment for South Africa, following the 20%-odd real depreciation of the Rand in the past year, exporters should benefit. Nonetheless, there is a risk that a gradual tightening up of US monetary policy could dry up capital inflows into South Africa, causing the Rand to depreciate further, with damaging inflationary consequences that could result in a rise in interest rates sooner than expected.

Secondly, a repeat of the escalation of industrial action experienced in 2013 would scupper the potential boost to exports. Hope also exists that once the general election is out of the way, the government will find it easier to implement the National Development Plan, which is directed at addressing the impediments constraining improved longer term growth.

## Shariah banking

As South Africa's only fully-fledged Islamic bank, Al Baraka Bank maintains strict adherence to Shariah in its business activity.

The bank continuously works to improve its controls and structures in an ongoing commitment to Shariah compliance. In addition, the bank takes guidance from the Shariah Supervisory Board, an independent body of specialist jurists in Islamic commercial jurisprudence.

All our efforts are supported by the bank's membership of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), acclaimed around the world for the standards it sets. It is to these strict standards we adhere in the execution of our business activities.

The bank's Shariah Certificate is displayed throughout our national network of offices and branches, substantiating our pledge to clients, prospective clients and other stakeholders that we remain intent on maintaining Shariah compliance as a truly Islamic bank.

## Al Baraka Banking Group

Al Baraka Bank in South Africa is a subsidiary of Bahrain-based Al Baraka Banking Group, globally regarded as a leader in Islamic banking, and with representation in no fewer than 15 countries around the world. With a world-wide staff complement of some 9 700 people, the group's assets exceeded US\$20,0 billion, while generated net income amounted to US\$258,0 million in the 2013 financial year.

On the back of such impressive financial results and buoyed by a slowly improving world economy, Al Baraka Banking Group is continuing an impressive international business growth curve, mirrored in the results of its various subsidiaries. In addition, the group's new state-of-the-art head

office, which is under construction, in Bahrain rises as the manifestation of its leading position in the global banking environment and its status as one of the world's top Islamic banking groups. Al Baraka Banking Group believes implicitly that banking should play a crucial role in society; a role in which - as bankers - all concerned must take responsibility for the stewardship of the resources placed in their care. The group, accordingly, relies on Shariah principles to guide it and its subsidiaries, as it participates in the successes of its customers and shares in developing the social fabric of families, businesses and society in general.

Such has been its overall business success in recent times, that Al Baraka Banking Group and five of its subsidiaries - including Al Baraka Bank in South Africa - were honoured with international banking awards during 2013. Al Baraka Banking Group received the 'Best Islamic Financial Institution in the Middle East/Africa Award' at the prestigious USA-based Global Finance magazine annual awards, involving international banks and financial institutions. The awards committee comprised economists and editors of Global Finance, together with international financial advisors and experts in the banking field. The group and winning subsidiaries were recognised for their prominent role in the Islamic banking sector, their ability to achieve consistent growth and the meeting of professional standards in terms of the quality of their products and services, together with their originality and innovation in services offered and customer service delivered. In addition, criteria included the winners' continued development and innovation in banking operations, as well as strategic relationships, geographic reach, profitability and the robustness of their financial position.

The awards were received by Mr Adnan Ahmed Yousif, president and chief executive of Al Baraka Banking Group - and chairman of Al Baraka Bank in South Africa - on behalf of the winning subsidiaries during a ceremony held in Washington, USA, in October 2013. The subsidiary banking units were described as having long histories in the countries in which they operate, being amongst the leading financial institutions in servicing their communities and being well-established in terms of their expertise in and knowledge of local markets.

## South African Financial Performance

The 2013 financial year saw Al Baraka Bank surpass its previous best ever financial results, achieved during the 2012 reporting period, to register yet another highly successful year.

The review period saw our bank's total assets grow by 18,7% to close on R4,4 billion at financial year-end.

In addition, our gross advances grew by R359,3 million, or 13,1%, while the deposit book grew by 18,6%, or R619,1 million and the equity finance book grew by 23,1%, or R126,6 million.

Our net income before impairment for credit losses and after allowing for profits shared with and paid to depositors increased by 11,4% to R138,2 million. Improved fee income, commission income and other income enabled the bank to increase net income from operations by R22,4 million, or 15,4%, to R168,1 million.

Such pleasing financial results ensure that the bank remains firmly on a growth path, improving our ability to meet the growing needs of our diverse client-base.

In living the 'your partner bank' ideal, we strive constantly to develop close, personal and enduring associations with our clients and, through such relations, to engender business interactions between equals, ensuring the shared rewards and benefits of true partnership. In this regard, the bank was successful in converting previously introduced new products into viable financial tools for our clients, whilst wholly-realising its transformation goal in becoming a fully-fledged and competitive commercial bank during the review period. The uptake of our bank's foreign exchange offering during the review period proved exceptional. This may be directly attributed to our converting from



being an 'Authorised Dealer with Limited Authority' for retail foreign exchange, and able only to offer to purchase and sell foreign bank notes, to trading under a full foreign exchange licence, thus becoming an 'Authorised Dealer' and enabling us to significantly extend our range of international banking services .

It was always the bank's intention to become an 'Authorised Dealer' and our foreign exchange demand forecast was proven to be entirely correct. We have been hugely encouraged by the immediate and tremendously positive effect of the licence conversion and resultant demand for the greater international banking services such a licence affords.

Earnings from foreign exchange increased by 177,4% during the 2013 financial year, with transactions growing at a remarkable average of 22,8% a month, contributing R6,2 million to the bank's net income from operations.

Much of the uptake growth was as a consequence of the bank's competitive exchange rates and favourable services fees, coupled with efficient service and use of state-of-the-art technology, together with the fact that such international banking services created a host of new avenues previously unavailable to clients.

This also gave effect to the sizeable attraction of new clients to the bank.

Looking ahead, the bank has embarked on a programme to introduce additional foreign exchange services for the benefit of clients, inclusive of Shariah-compliant forward exchange contracts and the international use of the Al Baraka Debit Card. It is anticipated that this will further reinforce our position as a mature and highly competitive commercial bank, while enabling our corporate clients to transact seamlessly across the world.

During the 2013 financial year the bank saw the Shariah-compliant unit trust, known as the Old Mutual Al Baraka Funds since the founding of a partnership with Old Mutual in 2010, break the R1,5 billion mark. This fund has continued performing extremely well since 2011 when it was ranked as one of South Africa's best-performing general equity funds and one of the world's primary Shariah-compliant equity funds.

The review period also marked the initialisation of a project geared to the migrating of our magstripe debit cards to chip-enabled cards, thus conforming to global Europay, MasterCard and Visa (EMV) standards. These standards are being adopted by banks around the world, with many currently in the process of implementation.

By embracing the latest EMV technology, Al Baraka Bank regards the transition as an evolutionary phase in our electronic banking offering, first introduced in 2009. The new generation cards will provide account-holders with improved security, reducing still further the risk of cloning and instances of counterfeit card fraud. It will also enable us to include additional services and a variety of value-adds

on cards for the benefit of card-holders into the future.

We envisage the implementation of a pilot project before rolling-out card replacement to clients during 2014. While clients face no additional costs, they will derive the security benefits offered by cards with embedded micro-chips, together with the advantages which lie in the fact that chip-enabled cards are able to store considerably more information than traditional magstripe cards.

A key focus for the bank during the 2013 financial year included containing overheads and a concerted effort to increase levels of the non-funding income. This was a significant group-wide challenge and one which required the implementation of initiatives designed to significantly increase the low non-funding income as a percentage of total income. During the course of the review period, we actively addressed the issue with regard to transactional fees, foreign exchange, electronic banking and our unit trust product.

Pleasingly, our necessary efforts resulted in a 26,7% increase in fee, commission and other operating income by financial year-end. Going forward and in line with the group initiative to significantly improve non-funding income, we will endeavour to design and implement interventions geared to maintaining and further improving such income levels.

Following the implementation of the Equation Banking System in late 2010, the need to boost income and, in particular, non-funding income was considered paramount in the 2013 financial year.

In this regard we focused on implementing additional products and services resulting in the roll-out of business banking facilities, cheque books and full foreign exchange services. Operational efficiency was regarded as another key driver to generating income and reviewing operational expenses and, in this regard, business process re-engineering (BPR) was considered to be an essential tool for improving the bank's overall operational efficiency.

Accordingly and following both executive committee and board approval, a BPR initiative was launched during June 2013.

Inclusiveness and the full participation of stakeholders is seen as a critical success factor in any BPR initiative and our core project team accordingly comprised representatives from all the bank's business units, while sub-project teams were driven by the business managers, assisted by team members from their respective business units.

Our project team identified a number of key drivers, inclusive of creating a paradigm shift in customer service excellence, addressing the cost to income ratio and establishing operational efficiency by way of such concepts as the single capture of data and the introduction of a paperless environment as a means of contributing to the overall reduction in the cost of operations, as well as the effective utilisation of precious and scarce staff resources which, it is envisaged, would also contribute to the overall job satisfaction of members of staff.

# Chairman and Chief Executive's Statement (continued)

The success of our two-year BPR initiative, which adopts a phased delivery of project objectives approach, will be measured against these drivers.

Our continuous assessment and improvement approach to growing and enhancing our business, while constantly striving to better our offering and service to clients was rewarded in the 2013 financial year with the presentation of a major international award.

We were humbled to learn that Al Baraka Bank was named 'Best Islamic Financial Institution in South Africa' in the acclaimed Global Finance sixth annual World's Best Islamic Financial Institutions 2013 event in Washington, USA. The bestowing of such a prestigious international business accolade will spur us to redouble our efforts to implement our strategies to best effect. Our selection was made by Global Finance following extensive consultation with bankers, corporate finance executives and analysts from around the world. Factors considered included growth in assets, profitability, geographic reach, strategic relationships, new business development and innovation in products. Also factored in was reputation and customer satisfaction.

Our overriding goal remains to constantly improve our customer service levels, through the continued development and provision of innovative Shariah-compliant banking products and financial services, in line with the ever-evolving requirements of the people the bank exists to serve.

We have developed a most favourable growth trajectory in recent years and with such international recognition for our efforts, coupled with the benefits associated with being a subsidiary of Al Baraka Banking Group, we believe now that we are ideally positioned to take Islamic banking to a new business level in South Africa.

## Dividend

Pleasingly, the bank has for the eighth consecutive year declared a dividend for the benefit of shareholders.

We are pleased to report that the bank's board approved a dividend of 45 cents per share for the 2013 financial year, which was payable in October 2013.

## Broad-Based Black Economic Empowerment

Al Baraka Bank has long recognised the active role private sector businesses must play in promoting Broad-Based Black Economic Empowerment (B-BBEE) in South Africa.

The bank embraces the B-BBEE ideal and believes that by creating a supportive business culture, it will successfully assist in fostering diversity and promote transparency, while setting out to maintain a business which effectively and positively caters for the diversity of its own staff and the owners and staff of the service providers with which it interacts from time to time.

This adopted approach is in line with the bank's charter.

## Information Technology

During the 2013 financial year we introduced a range of strategic progressions within the business environment in an ongoing effort to continuously broaden the scope of our corporate services.

This, together with our concerted efforts to exploit growth opportunities in existing areas of our own retail banking operations, saw the implementation of various new technologies, systems and process re-engineering efforts all designed to meet the increased demand for services.

## Corporate Governance

Strict adherence to the principles of good corporate governance is a bank imperative.

As a trusted financial institution, we take most seriously our responsibility for transparency of action and absolute compliance with laws and regulations. The bank's long-time observance of governance best practice is widely recognised within the South African financial sector and we continuously work to uphold our governance position through the realisation of our obligations in terms of the King Report on Corporate Governance (King III).

## Corporate Social Investment

Private sector-inspired corporate social investment programmes play a pivotal role in meeting socio-economic upliftment needs in South Africa today.

The requirements necessary to normalise our social order are vast and big business has a considerable responsibility in terms of making a meaningful difference to the lives of the disadvantaged through active support for projects geared to repairing the social fabric of our communities.

For our part, we have - since 1994 - implemented a strategically-focused Corporate Social Investment programme, impacting on education, humanitarianism, health, security and poverty alleviation. In line with this, the bank donated funds in the amount of R9,0 million to needy organisations and causes across South Africa during the course of the 2013 financial year. The bank is steadfast in its resolve to continue efforts to contribute to the socio-economic upliftment of our communities.

## Future Prospects

During the review period, the bank commenced a project to raise additional capital to issue Sukuk (investment certificates), thus ensuring the growth of the bank's capital.

We are also set to complete a comprehensive investigation into the feasibility of developing and introducing a range of mobile banking products to complement our clients' current banking experience.

## Appreciation

In the interests of strengthening the bank's leadership and giving effect to a more focused approach to our strategic initiatives, we were pleased to have received regulatory approval to introduce a new reporting structure, in line with a board recommendation, during the 2013 financial year.

We extend our appreciation to three senior members of staff who have served the bank exceptionally well in their former positions and to congratulate them on their new appointments within Al Baraka Bank. We look forward to their continued valuable contribution towards the smooth operation of the company in their revised roles.

Former Financial Director, Mr Jacques Courtiade, has been appointed as Chief Operating Officer (COO), responsible for corporate and retail branches, as well as the information technology, electronic banking and projects divisions. Mr Abdullah Ameen, formerly General Manager: Finance, has been appointed as Acting Financial Director, with responsibility for the bank's Finance Department.

The former General Manager: International Banking, Mr Mohammed Kaka, has been appointed as Executive: International Banking.

These reporting changes came into effect in October 2013.

In conclusion, Al Baraka Bank has enjoyed a year of impressive financial results.

In view of such sound financial performance, we take this opportunity to thank most sincerely the members of our board, the executive team and all the members of our staff for their sterling effort in taking our business forward



during the past year.

We must, of course, also recognise and roundly acknowledge the indomitable role played by Al Baraka Banking Group. The guidance provided to and support shown for our subsidiary has, in no small measure, contributed towards the sustained growth of Al Baraka Bank in South Africa and our ability to deliver effectively against the growing needs of our clients.

Last, but not least, we offer our grateful thanks to our shareholders, together with our private, business and corporate clients.

Our ultimate goal is the achievement of business and private progress through effective partnership with you.

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**Adnan Ahmed Yousif**  
Chairman

10 April 2014

Our shared beliefs and aspirations bind us in a mutually-beneficial partnership; a partnership which stimulates value for the communities, businesses, families and individuals we serve.

Al Baraka Bank remains committed to consolidating its position as a commercial bank in South Africa's financial environment and to re-enforcing its status as this country's only fully-fledged Islamic bank into the future.

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

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**Shabir Chohan**  
Chief executive