

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

FOR THE THIRD CONSECUTIVE YEAR, GROWTH IN THE SOUTH AFRICAN ECONOMY IN 2014 TURNED OUT TO BE SIGNIFICANTLY WEAKER THAN HAD BEEN ANTICIPATED AT THE BEGINNING OF THE YEAR. INDEED, GLOBAL ECONOMIC GROWTH PROVED TO BE SOFTER THAN PREVIOUSLY ANTICIPATED.

Economic overview

Domestic business confidence was depressed by aggressive and disruptive industrial action in the mining and manufacturing sectors.

This contributed to perceptions that the Government is challenged or lacks the willpower to press through reforms which would overcome the structural weaknesses impeding the attainment of a higher sustainable growth rate. In addition, growing disruptions in electricity supply and intensifying concerns regarding such supply going forward have added to perceptions of a diminution in long-term sustainable growth.

Increased reluctance to undertake significant new capital investment has ensued. Fortunately, interest rates remain at historically low levels and a sharp fall in fuel prices should provide a boost to disposable income and help to stabilise growth in consumer spending.

The fall-out from rapid and often indiscriminate growth in unsecured lending to households has played out its course. However, the weakness of global economic growth, which has contributed towards lower oil prices, has also depressed prices of many minerals which South Africa exports, thus neutralising much of the potential longer-term benefits of cheaper fuel.

Should some of the factors contributing towards the decline in business confidence be overcome in the coming year, economic growth for 2015 should turn out to be slightly better than that of 2014. However, even this mild optimism might prove to be unfounded in the event of the Eurozone and Chinese economies weakening more than official forecasts suggest.

Hopes are pinned on the benefits of additional monetary loosening in the Eurozone. Even here, there are growing concerns about a disjuncture between rising asset prices stemming from the loose monetary policy of the past five years and the relative paucity of global growth and the increase in inequality this is generating both globally and in South Africa.

Al Baraka Banking Group

Al Baraka Bank in South Africa is a subsidiary of Al Baraka Banking Group, which itself is globally-acclaimed as a leading force in Islamic banking.

Based in Bahrain, Al Baraka Banking Group enjoys representation in some 15 countries world-wide and employs in excess of 10 000 members of staff.

Al Baraka Banking Group's total assets at the end of the 2014 financial year amounted to US\$23,5 billion, reflecting an impressive 12,0% increase over the 2013 review period.

Coupled with the group's impressive financial results is the advantageous bond it has come to enjoy with its clients around the world.

The group is today reaping the benefits of having developed and implemented a globally unified corporate identity in 2009; an identity which mirrors the core values and intrinsic strengths of the financial institution.

Al Baraka Banking Group looks to the continuous building of its capacity and the strengthening of its resources so as to ensure its ability to provide a fair and equitable financial system in especially, but not limited to, the countries in which it currently operates.

Purposely re-positioned as 'Your Partner Bank,' Al Baraka Banking Group - through its global network of subsidiaries - sets out to reward efforts which contribute to the development of society, thus giving rise to Al Baraka becoming the brand of choice for financial services, internationally.

Indeed and in recognition of long service to Islamic economics and the effective dissemination of the Islamic banking culture, we are humbled by the Jinan University of Lebanon's recent awarding of an honorary doctorate to Mr Adnan Ahmed Yousif, president and chief executive of Al Baraka Banking Group, who is also chairman of Al Baraka Bank in South Africa.

South African subsidiary's financial performance

Islamic banking is one of the fastest growing sectors in the world and this has made it an exciting and challenging environment in which to work.

The 2014 review period saw our bank achieve record financial results for the third consecutive year, exceeding our previous best results, attained during the 2012 and 2013 reporting periods respectively.

Our net income before tax rose by an impressive 37,5%, from R40,0 million in 2013 to R55,0 million in 2014, while advances grew by 17%, or R529,0 million.

Pleasing growth in demand for our products precipitated this significant increase, although we remain cognisant of the need to manage, in a pragmatic manner, the capital requirements to support such growth.

The bank's deposit book grew by 7%, or R289,0 million. Total assets increased by 9,1% to top R4,8 billion, illustrating the distinct and widespread increase in the appeal, by Muslims and non-Muslims alike, of the benefits of interest-free banking, in line with Islamic banking principles.

The 2014 financial year also saw a significant injection of share capital, in the amount of R150 million, which we believe will assist meaningfully in sustaining our current growth path.

This financial growth spike co-incided with our 25th year in business and also marked the completion of our transformation from a niche financial institution to a commercial bank, heralding a period of sustained growth into the future.



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The R150 million share capital rights offer was exceptionally well subscribed by existing shareholders, clearly indicating the outstanding confidence which exists in terms of Islamic banking in South Africa.

Our bank is most grateful for the support shown in the rights offer, as this enabled us to take our capital and reserves to more than R559,0 million and to ensure that the bank remained well on-track to achieve our short and medium-term strategic business objectives. Importantly, it also better enabled us to meet and exceed our clients' diverse financial service needs, while allowing for the maximisation of profitability and the creation of a sound profit and capital structure going forward.

Extremely encouraging levels of demand for the greater international banking services our 'Authorised Dealer' status affords us enabled our expanded foreign exchange services to continue attracting exceptional support during the 2014 reporting period and resulted in significant growth in income.

Foreign exchange earnings increased by 59,0% over the previous year, with transactions growing at the rate of 30,0% a month and adding R10,0 million to the bank's income.

During the review period, we also initiated the development of a new product to facilitate Shariah-compliant forward exchange cover, as an extension of our foreign trade facilities. This will allow clients to minimise currency risk by purchasing forward cover from the bank, with repayment occurring on either a spot or deferred basis.

Product development is at an advanced stage and this facility will be introduced in due course.

Crucially, the 2013 introduction of a strategy to increase levels of non-funding income and the implementation of initiatives designed to improve such income began bearing fruit during the review period. Our 2014 efforts resulted in an increase in non-funding income of 26,0% over the previous year's figure.

Importantly, too, our business process re-engineering intervention - launched during the course of 2013 to assist in optimising business efficiencies so as to drive income generation and operational cost reduction - with a view to cutting our cost-income ratio - progressed well during the review period. Implemented interventions gave effect to a decrease in our cost-income ratio, although while we recognise that solid progress has been made, we acknowledge that the ratio remains at an unacceptably high level.

Whilst we may be justifiably pleased with the cuts achieved, we intend re-doubling our efforts to appreciably reduce this ratio and, as a consequence, our business process re-engineering project will continue until such time as an appropriate cost-income level has been achieved.

Al Baraka Bank was poised, in 2014, to launch Sukuk (investment certificates), in line with a growing international trend and as an attractive alternative to conventional bonds. The Sukuk market globally has demonstrated significant growth in recent years and was projected to grow by a massive 141,32% by 2016.

The proposed move was aimed at growing the bank's capital base.

However and as a result of certain regulatory issues at the time, this issue was delayed, prompting instead Al Baraka Bank's most successful share capital rights offer.

Of concern is the unfortunate, though necessary, significant investment of resources to meet ever more onerous regulatory requirements. This is becoming a major cost factor for banks in South Africa and is a matter with which Al Baraka Bank has long grappled in the pursuit of a resolution which facilitates the assurance of continuously meeting regulatory requirements at least cost.

This is a matter which will continue receiving our close attention into the forthcoming financial year. On a more positive note, we are especially pleased with having achieved our best ever financial

results during the 2014 financial year, but would stress that our bank's management team remains intent on striving to further expanding our growth-path in the years ahead.

25th Anniversary

The 2014 financial year marked a momentous period in the history of Al Baraka Bank - a quarter of a century in business.

Established in 1989, our bank's founders boldly pursued their goal of becoming the pioneers of Islamic banking in South Africa. They successfully founded South Africa's first Islamic financial institution - and the first of its type to be established in the Western World.

Their vision 25 years ago is to be applauded, as is the exceptional support the community has displayed - and continues to display - in increasingly selecting Al Baraka Bank as their financial institution of choice.

Today ours is the only fully-fledged Islamic bank in South Africa, adhering strictly to Shariah and positioned at the leading-edge of Islamic banking in this country. In addition and in line with the principles behind Broad-Based Black Economic Empowerment, we embrace the ideal and actively set-out to create a business culture which nurtures and caters for the diversity of our staff.

We may attribute our 25-year growth trajectory to the market's confidence in our bank's ability to implement and develop a viable alternative to interest-based banking in South Africa and its track-record and commercial bank status reflects client support for a sustainable non-conventional system of banking which offers a full suite of financial services.

This, we believe, has created the ideal platform for Al Baraka Bank to further increase its footprint in this country's commercial Islamic banking sector into the future and to contribute towards the overall upliftment of South African society.

In this regard, we celebrated this business anniversary with the introduction of a bold, long-term community-based youth empowerment and job creation legacy project in recognition of the customer support we have enjoyed since the bank's inception.

Our company's founders provided us with a true legacy, creating the pioneering, entrepreneurial spirit of business excellence which lives on in the bank today. In demonstrating our gratitude for the widespread community support we have enjoyed over the years, we believed this to be the ideal time to give back to society, creating our own legacy and one which will have a really meaningful socio-economic impact on the historically disadvantaged of South Africa.

Details of this initiative, dubbed 'Project 25,' are contained in the corporate social investment section of this statement.

Executive promotion

During the 2013 financial year we moved to strengthen our bank's executive leadership, enabling a more focused approach to our strategic business initiatives. This resulted in a positional re-shuffle within and several promotions to our executive team.

One such promotion involved Mr Abdullah Ameen, formerly our General Manager: Finance, who was appointed as Acting Financial Director. We are pleased to announce that during the course of the review period, Mr Ameen was appointed as Al Baraka Bank's Financial Director and, at 33 years of age, becoming the youngest Executive to be appointed in our bank's 25-year history. Attracted by the fact that Al Baraka Bank offered an alternative banking model to conventional banking, Mr Ameen joined our company in 2008.

We take this opportunity to congratulate Mr Ameen on his appointment and believe that he will make a valuable contribution to the business development of the bank into the future.

Dividend

The 2014 financial year saw our bank declare a dividend for the benefit of shareholders. This is the ninth consecutive year in which Al Baraka Bank has declared a dividend.

The bank's board approved a dividend of 45 cents per share for the 2014 financial year.

Corporate governance

We, at Al Baraka Bank, believe implicitly in the need for strict adherence to the principles of good corporate governance and the unequivocal observance of the best practice ideal.

As a financial institution operating in a highly regulated environment, we recognise that we are entrusted with our clients' finances and that, accordingly, we have an obligation to ensure absolute transparency of action and unconditional compliance with all 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

The poverty trap in South Africa is an inescapable and unfortunate fact of life and will remain so for the foreseeable future.

However, it must be recognised that this country's private sector is doing much to assist in closing the gap between the 'haves' and the 'have-nots.'

Comprehensive, generous and well-executed corporate social investment programmes can and do make a real difference to South African society. The task is immense and the responsibility placed on big business is onerous indeed. However, the future would be bleak without the considerable and weighty financial intervention of the business community. As a significant private sector player in this country, Al Baraka Bank has long accepted the reality of South Africa and delivers an ongoing response designed to channel corporate social investment funds into strategically identified areas of need, inclusive - in the bank's case - of education, humanitarianism, health, poverty alleviation and security.

The 2014 financial year saw our bank add tellingly to our existing social responsibility programme with the introduction of a bold, long-term community-based youth empowerment and job creation legacy project in recognition of our 25th anniversary and the wonderful customer support we have enjoyed since the bank's inception in 1989.

'Project 25' was initiated as a two-pronged socio-economic initiative designed, on the one hand, to better empower and prepare learners who will become tomorrow's potential business leaders and, on the other, to assist with poverty alleviation, job creation and food security.

The bank has pledged long-term assistance to 25 Grade 10 learners from Sinevuso Secondary School, near Ixopo, KwaZulu-Natal, launching a cyclical three-year support programme aimed at providing holistic preparation for post-matric studies or employment.

In addition, we have implemented a community market garden initiative involving 25 jobless individuals at Mariannhill, near Pinetown - an area of high unemployment - as a means of creating jobs, alleviating poverty, promoting wealth generation and promoting a degree of food security in the area.

Our education-based programme includes additional tuition, life-skills and IT training, career choice discussions, aptitude testing and motivational interventions to boost learners' confidence and develop business values. Meanwhile, our provision of protective clothing, garden tools, fertilizer, fencing and water storage tanks has resulted in the pleasing growth of our market garden project, with regular market days being held at the bank, where fresh produce cultivated in the market garden is sold to staff.

During the 2014 financial year Al Baraka Bank donated an impressive R7,6 million to needy organisations and causes, inclusive of Project 25 participants.

Future prospects

Looking ahead, Al Baraka Bank remains committed to facilitating the growth of our business operations for the benefit of existing and prospective new customers.

As a commercial and leading Islamic bank in South Africa we are confident about our ability to continue showing positive growth and will strive to expand our client base in all market sectors through the further development of our product and service offering.

As 'your partner bank,' we are steadfast in our resolve to ensure the personal growth and development of all our customers, while continuing to advance the bank's own growth trajectory.

As previously indicated, we are excited about the development of a new product which has been designed to provide Shariah-compliant forward exchange cover.

This is an additional offering in our foreign exchange service bouquet. Controlled 'go live' deployment is planned for 2015, as is the proposed implementation of system functionalities designed to cater for imports and exports, which - we believe - will position our bank to attract a broader range of corporate customers in future. We are also currently giving consideration to the feasibility of including several additional foreign exchange products.

In view of increasing public interest, the bank is now also actively playing a significant instrumental role in efforts to investigate Takaful (Shariah-compliant Islamic insurance). This was previously afforded consideration, but was at the time deferred.

Such has been the demand for Takaful that steps to unveil this product have been renewed.

Following the outstanding uptake of our electronic banking products since the inception of the concept in 2009, we are constantly looking to bring on-stream products to tighten electronic banking efficiencies, thus radically improving client banking experiences.

We also plan to implement an EMV-compliant card.

Our bank is presently in the process of investigating a 'banking app' whose introduction, we are confident, will greatly assist customers currently utilising our electronic banking services.

Product growth and the growth of our facilities network in South Africa, makes Al Baraka Bank increasingly more accessible to both existing and, especially, prospective new clients.

As we continue our efforts to create tomorrow's bank today, our principal focus is to capitalise on all available opportunities.

Appreciation

In conclusion and in view of our bank having enjoyed its third successive year of record financial results, in spite of the lethargic economic conditions which have prevailed since the recession of 2008/09, we take pleasure in extending our most sincere appreciation to a number of stakeholders.

First and foremost, we acknowledge the immense role played by Al Baraka Banking Group in Bahrain and, in particular, its unstinting support for our South African subsidiary.

Our financial results and continued growth trajectory may, in large part, be attributed to Al Baraka Banking Group's confidence in our operation, together with its exceptional guidance to and ongoing business support for Al Baraka Bank in South Africa.

We also take this opportunity to thank most sincerely members of the board for their business acumen, strategic thinking and clear-cut direction.

Your collective financial wisdom, enthusiasm for the bank's growth and development, tempered only by carefully considered decision-making, has provided for the sound leadership of the bank and the basis for its not inconsiderable business success during the past



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25 years. We must, of course, express our gratitude to the bank's executive team and its dedicated members of staff for the steadfast commitment shown in taking Al Baraka Bank to ever-better financial heights, while never losing sight of the need to maintain personal relationships with our clients, without whom we would have no business.

Last, but by no means least, we are especially grateful to each and every one of our shareholders, as well as all our private, business and corporate clients.

As 'your partner bank,' we remain committed to ensuring the personal growth and development of our shareholders and clients, while simultaneously advancing the bank's own growth path.

Adnan Ahmed Yousif
Chairman

27 March 2015

Rest assured, our bank's supreme reward is in contributing to the overall development of the people, businesses and communities we exist to serve. We, therefore, greatly cherish the support you continue to show towards Al Baraka Bank.

In continuing to manage the financial interests of our shareholders and clients to the highest ethical standards, we trust that we will continue making a positive impact on their lives for the greater good of society.

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

Shabir Chohan
Chief executive