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**Press Release – Office of the President & Chief Executive**

## **NET PROFITS OF ALBARAKA BANK SOUTH AFRICA**

### **RISE BY 15% IN 2008**

**Manama, 1 April 2009:** Albaraka Bank Limited (South Africa), a subsidiary banking unit of Albaraka Banking Group B.S.C. (ABG), announced that it achieved a good increase of 15% in its net profits in 2008. Operating profits also increased by 20%, assets by 11%, investments by 18% and customer deposits by 12%, according to a press release issued by the Bank.

The statement said that despite the global financial crisis and economic stagnation that created many difficulties to the South African economy and the financial institutions operating in the country, the Bank increased its net profit by 15% from ZAR18.82 million in 2007 to ZAR21.73 million (US\$2.70 million) in 2008. The Bank was able to achieve this success because of the Islamic banking approach that it adopts in its dealings which made it avoid the shortcomings of conventional banking. Total income amounted to ZAR99.43 million (US\$12.34 million) in 2008, representing an increase of 20% over year 2007. After deducting operating expenses, the net operating income amounted to ZAR33.31 million (US\$4.13 million), an increase of 16% over year 2007. After accounting for taxes, the net profit amounted to ZAR21.73 million (US\$2.70 million).

As assets and shareholders equity witnessed growth rates similar to that of the profits, the rates of return on assets and equity remained unchanged at 1.2% and 10% respectively compared to year 2007.

The balance sheet of Albaraka Bank Limited showed that assets had grown by 11% from ZAR1.69 billion in 2007 to ZAR1.87 billion

(US\$200.83 million) in 2008. This growth was the result of an increase in liquid assets by 13% to reach ZAR183.08 million (US\$19.65 million) in 2008, financing which increased by 2% to reach ZAR869.63 million (US\$93.36 million) and investments by 18% to reach ZAR738.22 million (US\$79.25 million) in 2008.

The increase in assets was financed by growth in customer deposits and unrestricted investment accounts which increased by 12% to reach ZAR1.62 billion (US\$173.75 million) in 2008 and financed 86.5% of the total deposits, and which in turns reflects the strong deposit base of the Bank. Similarly, shareholders' equity increased by 7% to reach ZAR216.86 million (US\$23.28 million) in 2008.

Mr. Adnan Ahmed Yousif, Chairman of the Board of Directors of Albaraka Bank Limited and President & Chief Executive of Albaraka Banking Group said that in spite of the global financial crisis that hit the South African economy and many of the banks operating in the country and an intensified competition in the local market, the Bank was able to achieve very good results. These results were the fruits of the hard work of the executive management and all employees of the Bank, backed by strong support from the parent company which helped enhance the status of the Bank, increase its market share and gain the confidence of corporate and individual customers.

As for the future, Mr. Adnan Ahmed Yousif said that construction work on the Bank's new head office building, sited on the outskirts of Durban's Central Business District and which will also house its main branch, was progressing well and the building is expected to be ready for occupancy in early 2009. Migration towards its new Equation core banking system commenced in 2008, and full implementation is anticipated during the first half of 2009. The Bank is also finalising the network communications and hardware for the second phase of the project, which will enhance its branch processing speeds and client service. The Bank has meanwhile fully implemented its Basel II software, incorporating live, automated, regulatory submissions. Comprehensive MIS and reporting capabilities are now in place, which will be further enhanced upon completion of the Equation implementation.

Mr. Adnan Yousif added that the Bank "intends to leverage on its modern core banking systems to enable it extend superior services to its customers whilst achieving greater operational efficiencies. It also plans to launch an electronic banking/debit card. It is currently

seeking a foreign exchange license, which would allow it to trade on the local inter-bank markets and expand its foreign exchange activities. Over the next five years it will open 3 additional corporate offices and expand its network to 12 branches".

On his part, Mr. Shabir Chohan, Chief Executive of Albaraka Bank Ltd, said that 2008 was not a good year for the South African economy. While real GDP growth dropped from 5.1% in 2007 to 3.2% in 2008, the rate of inflation continued to rise, reaching 11.4% year-on-year as food, electricity and oil prices escalated. This was in spite of the South African Reserve Bank's actions to bring inflation back within its 3 to 6% target range, in accordance with which it has increased interest rates steadily over the last two and a half years, so that the prime commercial banks' lending rate stood at 15.0% by the end of 2008. The trade deficit rose to US\$6.6 billion as the value of imports expanded faster than that of exports, leading to a worsening current account deficit which is estimated to have reached 7.8% of GDP by the end of the year.

The combination of high borrowing rates and the lasting impact of the National Credit Act of June 2007, which effectively curtailed the granting of easy credit, has significantly limited credit demand. At the same time, the Rand has deteriorated on the foreign exchange markets, from ZAR7.80/\$1 to ZAR9.93 at time of writing, which has had the effect of dampening, not only imports, but foreign direct investment as well.

He added that "South Africa's weakened economic performance had its effects on Albaraka Bank Ltd in 2008, but thanks to the Islamic banking approach that it follows, the efficient management of its operating resources and the support of the parent company, the Bank was able to overcome these difficulties and achieve good financial results. The Bank intends to continue its quest to progress relying on the successful strategies that it started to implement since the last few years and which proved their effectiveness especially in terms of strong control over utilization of resources, strengthening the credit control department, modernising the IT infrastructure and developing the skills of our human resources".

Albaraka Bank Limited, established as South Africa's first Islamic bank in 1989, remains the only bank in South Africa to conduct all of its business entirely according to the principles of the Sharia. Apart from its head office and its Corporate Division, both located in

Durban, the bank maintains 8 retail branches covering Durban, Johannesburg, Pretoria and Cape Town. The bank provides finance for commercial and residential property acquisition and also for the purchase of motor vehicles and equipment, largely through the murabaha and musharaka modes of finance. It also extends trade finance facilities to commercial customers and has recently launched a new Ijarah product which it hopes will prove attractive to the market.

Item	Amount	Growth Rate
Net Profit	ZAR21.73 million (US\$2.70 million)	15%
Financing and investments	ZAR1.61 billion (US\$172.61 million)	9%
Deposits	ZAR1.62 billion (US\$173.75 million)	12%
Shareholders' Equity	ZAR227.01 million (US\$23.28 million)	7%
Total Assets	ZAR1.87 billion (US\$200.83 million)	11%

Albaraka Bank Limited (South Africa) is one the subsidiary banking units of Albaraka Banking Group. Albaraka Banking Group (ABG) is a Bahrain Joint Stock Company listed on Bahrain Stock Exchange and Nasdaq Dubai Stock exchange. It is a leading international Islamic bank with Standard and Poors long and short term credit ratings of A-3 and BBB- respectively. ABG offers retail, corporate and investment banking and treasury services strictly in accordance with the principles of the Shari'a. The authorized capital of ABG is US\$1.5 billion, while the total equity amounts to about US\$1.55 billion. The Group has a wide geographical presence in the form of subsidiary banking Units and representative offices in twelve countries, which in turn provide their services through more than

283 branches. These banking Units are Jordan Islamic Bank/Jordan, AlBaraka Islamic Bank/Bahrain, AlBaraka Islamic Bank/Pakistan, Banque AlBaraka D'Algerie/Algeria, AlBaraka Bank Sudan/Sudan, AlBaraka Bank/South Africa, AlBaraka Bank Lebanon/Lebanon, Bank Et-Tamweel Al- Tunisi Al Saudi/Tunisia, The Egyptian Saudi Finance Bank/Egypt, AlBaraka Turk Participation Bank/Turkey, AlBaraka Bank Syria (under formation), and an ABG representative office in Indonesia.

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