

Sustainability Report



Introduction

In terms of King III, South African companies should generate integrated reports regularly. Reports should detail the impact such companies have on the economic, environmental and social well-being of those communities with which they interact.

In this regard, Al Baraka Bank believes sustainability reporting to be a substantive platform within the very heart of the company's business.

We aim to ensure that stakeholders are informed of our history, performance and future planned interventions as regards the bank's triple bottom line.

We readily embrace the philosophy of sustainability and its transparent communication to stakeholders and the broader public. In keeping with this approach, Al Baraka Bank's integrated annual report provides stakeholders with a holistic and fully integrated account of the organisation's financial and sustainability achievements.

Al Baraka Bank has adopted an eco-efficiency approach to company operations and works to ensure its continuous adherence to fair and equitable business practices; practices which reflect the ever growing integration of economic, environmental, social and ethical values.

In this respect, our quest is simple. It is to significantly reduce waste and inefficiencies of operation as a means of creating financial savings and the protection of the environment.

Company overview

Al Baraka Bank is South Africa's only fully-fledged Islamic bank and is fully committed to the delivery of Shariah-compliant banking in this country.

The bank's vision is to provide society with a fair and equitable financial system; one which rewards effort and contributes to the development of the community we serve.

In giving effect to this vision, we make certain that we conduct our business operations in an ethical manner and in accordance with Islamic beliefs. Ours is a company which strives for the highest professional business standards and is dedicated to sharing the benefits it derives with its customers, shareholders and members of staff.

Al Baraka Bank is actively implementing and rolling-out a business strategy tailored to both maximise profits and ensure best practice in the defence of the environment.

Strategic business objectives, competencies and key performance indicators

Our bank sets out to meet four broad strategic business objectives. These include:

- Increasing returns to shareholders;
- Promoting customer service excellence;
- Developing innovative products; and
- Utilising enhanced technology.

Identification of risks and opportunities

We seek to identify risks and opportunities, utilising a number of methods and processes to successfully manage such risks and to use to our advantage the opportunities we encounter in the day-to-day business of the bank.

Through the execution of our enterprise risk management strategies, the bank manages its overall financial risk, together with risks which may be associated with strategy, operations, reporting and all aspects of regulatory compliance.

Organisational and governance structure

Good governance is regarded as a critical cornerstone of our business.

We accordingly ensure the bank's strict adherence to the principles of good governance, especially in terms of the four pillars which underpin the corporate governance concept, namely responsibility, accountability, fairness and transparency.

Our directors' affairs committee of the board annually reviews the bank's obligation to the execution of sound corporate governance practices, in line with the recommendations of King III, the result of which enables our management to constantly improve its levels of compliance.

Critically, however, given our financial institution functions as a Shariah-compliant bank, it must be noted and accepted that the following is prohibited:

- Collection or payment of interest;
- Transactions involving excessive risk and speculation; and
- Investment in prohibited activities.

By following Islamic business principles, Al Baraka Bank remains true to Shariah standards, as published by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with such standards, our bank avoids investment in non-Shariah-compliant fixed-income instruments or securities, does not hold cash balances in interest-bearing accounts or assets and does not invest in any company which may be involved in alcohol, tobacco, pork, casinos, hotels or conventional banks.

Managing sustainable development

We are of the opinion that business sustainability and its effective management requires a conscious step-change, relinquishing the more traditional short-term focus on profitability in favour of seeking to stimulate more enduring performance in terms of, especially, economics, governance, social matters, ethics and - importantly - the environment. Such an approach generates sustainable shareholder value, while also enabling the more effective management of the interests of stakeholders.

Ethical behaviour

The bank promotes ethical investing, thereby ensuring totally sustainable and responsible investment policies and practices throughout its operations.

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The functions of our social and ethics committee of the board include the monitoring of the bank's activities, having due regard for legislation and best practice in terms of ethics and stakeholder management, with particular reference to our members of staff, the communities we serve, consumers and the environment. In addition and as a responsible bank, we take cognisance of issues of gender equality and disability opportunities within our business.

We document here the economic, environmental and social features which impact on the methodology behind which we undertake our business:

Economic:

As a Shariah-compliant financial institution, Al Baraka Bank takes most seriously the need for responsible financing, evidenced in our adherence to requirements, as set out in both the National Credit Act and the Consumer Protection Act.

Our overriding objective is to create long-term and sustainable economic value for our stakeholders. We look to the generation and implementation of risk management systems which enhance our bank's stated adherence to good corporate governance principles, compliance with all laws and regulations and alignment with ethical business practices.

In so doing, we believe it possible to appreciably grow shareholder value.

Importantly, the bank's stringent client-risk profiling, which has resulted in the minimal need for legal recourse, goes a long way towards ensuring a sustainable bank from an economic perspective.

This leads to the bank paying keen attention to the financial viability of projects, thus spurring employment growth in small and medium-sized businesses, as well as wealth creation and distribution within local communities.

Environmental:

Entrenched in the charter of our social and ethics committee is a commitment to the proactive protection of the environment and the conservation of natural and renewable energy resources.

While we are aware that the bank's environmental impact is not as extreme as those enterprises active in the South African manufacturing sector, we remain cognisant of our responsibility in terms of promoting energy conservation and limiting the utilisation of scarce and non-renewable resources.

We continuously assess our approach to environmental sustainability and identify and implement additional measures which will enable us to further minimise our company's eco-footprint nationally. Such measures include, but are not limited to:

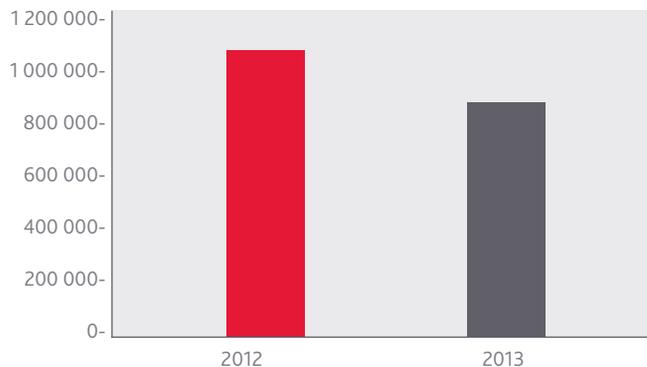
- The change from conventional light bulbs to high-performance, energy-saving LED down-lighters, in line with a rebate provided by energy utility, Eskom;
- The maximisation of natural light at Al Baraka Bank outlets and, especially, its Durban-based head office and Kingsmead branch, both of which were architecturally designed to filter natural light effectively and efficiently;
- The minimising of paper use by members of staff, through the promotion of electronic communication and the facilitation of electronic communication with the bank's shareholders;
- The introduction of shared multi-function devices on a national basis, so reducing the number of individually operated devices and enabling the close monitoring and measurement of paper usage;
- The encouragement of shareholders to accept electronic communication with the bank's transfer secretaries, so bringing about a reduction in paper consumption, while also limiting the need for road and/or air transport

and postage requirements;

- The implementation of a strategy designed to create within the bank a paperless operating environment;
- The effective sorting of all waste into recyclable waste and so-called 'wet waste' before removal from the bank's outlets;
- The conclusion of a Service Level Agreement with a recycling company responsible for the collection and recycling of e-waste, inclusive of toners and ink cartridges. The proceeds from such operations are donated to a non-profit organisation committed to funding opportunities for historically disadvantaged persons with physical disabilities;
- The automatic after-hours shutdown of both the centrally-ducted air-conditioning and lighting systems throughout the bank's head office and Kingsmead branch;
- The maintenance at head office of an atrium, bedded with indigenous plants and vegetation which promotes improved air quality within the confines of this multiple-volume four-storey building;
- The provisional plan to contribute to inner-city regeneration and greening programmes, where possible, through the development of available properties for environmentally-friendly car-parking facilities and public open spaces; and
- The introduction of more extensive office video conferencing facilities nationally, thus reducing the need for unnecessary air travel and improved time management, effectively decreasing the bank's overall carbon footprint.

An electricity management system, introduced at the bank's head office and Kingsmead branch in 2012, has enabled management to monitor energy consumption monthly, resulting in marked savings in electricity usage, as reflected in the accompanying graph.

Total comparative electricity consumption (kWh): head office/Kingsmead branch



Social:

South Africa is beset by a massive backlog of socio-economic challenges.

We recognise that the business community in this country has a telling role to play in assisting to overcome these challenges.

Since 1994, the bank has been actively involved in a comprehensive corporate social investment programme as its contribution towards the upliftment and empowerment of disadvantaged communities across South Africa. We specifically target five areas of concern, namely education, health, poverty alleviation, security and humanitarianism.

Our corporate social investment programme is closely monitored by the social and ethics committee of the board. In addition, we regularly report our social investment activities to the Bahrain-based international banking group, Al Baraka Banking Group, of which our bank is a subsidiary. We encourage members of our staff to become ambassadors for our



corporate social investment initiatives, by becoming involved in supporting worthy causes. During the period under review, many members of staff 'donated' 67 minutes of their time during working hours to assist a range of causes nationally, marking Mandela Day.

The 2013 financial year saw our bank contribute some R9,0 million to organisations and causes within the broad framework of our national programme.

Stakeholder Engagement

In response to King III requirements, Al Baraka Bank is rolling-out a board-approved stakeholder policy to ensure functional engagement with its various stakeholder groups around the country.

Customers:

Without customers our bank would have no business and we therefore strive to ensure that our focus is and remains on customer-centric service delivery.

We regularly engage with customers in order to interrogate and understand our customers' needs as regards new product development and use such interaction to proffer professional financial advice and details of the existing range of financial products provided by the bank. In essence, we are driven by the need to provide each and every customer with exceptional banking services during their every interface with the bank, regardless of the level of such dealings. Accordingly, we instil in our members of staff a keen sense of service delivery and believe that every member of our staff complement should live the service ethic.

This ethic is regularly tested by way of customer interactions, inclusive of 'mystery shopping' surveys, enabling the bank to determine customer opinion with regard to service delivery experiences at any of the bank's outlets nation-wide. We take feedback received most seriously and ensure the implementation of corrective behaviour where deficiencies are encountered.

We employ a customer service centre sharecall telephone facility and regard this as a critical tool through which to attend to customer queries, concerns, complaints and compliments, all in the most timely manner.

We use this and other channels of interaction, such as a system - currently being phased-in - for the recording, throughout the network, of calls pertaining to foreign exchange transactions and customer service issues, so as to rapidly and accurately examine customer feedback, thus ensuring measured and carefully considered new product implementation.

As part of our commitment to responsible banking and to ensuring the delivery of fair and equitable business practices, our bank has for some years utilised the services of an externally-based anti-fraud hotline, managed through the offices of an internationally-based firm of auditors.

Employees:

Recruitment and training –

The bank regards its staff complement as its single most important asset; an asset which makes business in the

financial sector possible.

Given that Al Baraka Bank operates in a highly regulated business and legal environment, we deem it critical that members of our staff adhere stringently to the very highest standards, display absolute integrity, total honesty, high morals, complete accountability and a strong disposition towards customer service.

In view of this, we seek to attract, develop and retain the country's top talent.

Bringing staff to their full potential, the bank provides a comprehensive training and development programme designed specifically to promote a necessarily high performance culture throughout the bank.

In addition, the bank recognises the need for a commitment to the principles behind the need for effective transformation in the South African business environment generally and the financial sector specifically.

This, then is a key focus for both our board and management.

We also believe implicitly in the provision of access to a range of Islamic educational initiatives, whilst also giving effect to fast-tracking high-performing graduates.

We have had in place since 2008 a graduate recruitment programme which is expressly designed to afford young, talented, driven graduates the opportunity to equip themselves with the skills and experience required to be successful in the working world.

In our estimation, the implementation of effective graduate programmes within the business sector is rapidly becoming a private sector imperative because the pace of business today simply does not allow for the time necessary to spend acclimatising young first-time job-seekers to the world of work and to train them in the ways of business, as employees.

It is widely acknowledged that companies want and expect new employees to begin contributing immediately and, therefore, schemes such as our graduate recruitment programme play a critical role in bridging the gap between a student's study life and the real business environment.

Importantly, BANKSETA funding was secured for the sponsorship of all-encompassing banking programmes, providing members of both staff and management with improved prospects for career growth within the bank. Such programmes include access to MBA studies, opportunities a number of members of the bank's team have taken-up.

Managing diversity –

The bank believes that differences amongst people should not result in the alienation of any group and is of the opinion that such differences should rather foster a sense of inter-dependence in the workplace.

Recognising this important principle, we seek to bring together in a single business culture the diversity of our employees, celebrating and encompassing the beliefs and

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values of all.

We, therefore, embrace the principle of diversity, using it to inspire mutual respect, a sense of belonging and a feeling of self-worth.

Transformation –

We remain committed to the process of transformation in the business context and fully support such principles, including the need to employ representatives of historically disadvantaged groups, inclusive of women and people with disabilities.

We also acknowledge and embrace the transformation policies passed by the Department of Trade and Industry and as a private sector business entity, diligently apply, where appropriate, a preferential procurement policy.

The bank will utilise the Financial Sector Code to report on its Black Economic Empowerment performance.

Employment equity –

Coupled with the above sentiments, our bank supports employment equity ideals and looks to recruit to our team new staff from historically disadvantaged backgrounds.

We are also intent on quickening the pace of promoting and/or appointing women to senior management positions, whenever the opportunity arises.

Employee wellness –

Productivity is inextricably linked to having a healthy team of employees.

Therefore, the health and welfare of our members of staff receives particularly close attention, as specified in our health and wellness policy.

This policy sets out to advance the overall health and well-being of our members of staff and is achieved through various interventions dealing with education and lifestyle changes. Regular staff wellness initiatives are run at all our branches for the benefit of employees.

In addition, staff are encouraged, where possible, to participate in healthy lifestyle programmes. A number of head office staff have involved themselves in an annual community walk as a means to boost their own wellness levels.

All such initiatives give effect to improved productivity in the workplace and the complete well-being of our members of staff.

Staff communication –

The bank is keenly aware of the need to ensure members of staff are regularly informed about activities which affect the business and decisions which influence the day-to-day operations of the bank.

We make use of several channels to communicate effectively with staff throughout the national office network. These include, but are not necessarily limited to:

- **The chief executive's address:** A staff briefing following each of the bank's quarterly board meetings;
- **The intranet site:** An internal online communications tool providing access to posted information;
- **Social media:** A communications tool utilised by management to quickly and universally reach members of staff;
- **The contact centre:** An email and telephonic contact point as a source of information regarding a range of employee-related matters;
- **Employee self-service facility:** A mechanism enabling members of staff to undertake a number of human resources activities electronically, inclusive of applying for leave, acquiring payslips and the like;

- **Tip-offs Anonymous:** A dedicated external fraud hotline which operates on the basis of anonymity and enables members of staff to 'blow the whistle' without fear of recrimination, secure in the knowledge they are making a difference;
- **Surveys:** A dedicated practice of surveying staff in terms of ethics; and
- **Staff presentations:** A useful method for keeping staff abreast of the latest developments within the bank.

Shareholders:

In accordance with the requirements of the Companies Act, our bank makes certain that it delivers to shareholders all relevant information in a timely manner and on a regular basis.

Its endeavours in this regard are geared towards actively entrenching the principles of absolute transparency and accountability.

In addition, shareholders are invited and encouraged to play an active role in bank decision-making processes by attending and participating in our bank's annual general meetings, held at Al Baraka Bank's head office in Durban.

Giving credence to our commitment to transparency, the chairmen of our various committees of the board and the Shariah Supervisory Board are always present at such meetings so as to provide informed responses to shareholder questions, concerns and queries.

Crucially, the chairman of our board's social and ethics committee makes use of this annual platform to deliver a detailed report on the activities and workings of the committee, requisite to the conditions of the Companies Act.

It is our opinion that appropriately informed shareholders will enjoy a superior appreciation for the bank and its business activities in the certain knowledge that such status will give rise to enlightened decisions and an attendant positive effect on the future of the bank.

Community:

'Your Partner Bank' is our positioning statement and a reflection of our desire to create and build solid relationships with the communities with which we interact around South Africa.

In developing community relationships, we rely on personal interaction, involvement in and sponsorship of community service events, the use of both social media and print media, community outreach by way of educational and upliftment programmes, involvement in community events, the provision of special-purpose publications, inclusive of our integrated annual report and abridged annual report, SMS messaging and our interactive website.

Such varied interaction allows us to act on invaluable community insights and to evaluate requirements, expectations and aspirations, while enhancing awareness of the bank and its role in the provision of Islamic finance.

Regulators and industry bodies:

Being a registered bank and operating within the South African financial services industry, we have established and maintain sound working relationships with the relevant regulatory authorities.

Through our statutory reporting to and interaction with these august bodies, we are able to ensure the bank's adherence to all legal and regulatory requirements.

Our bank also works together with other financial industry and related bodies, including the Banking Association of South Africa and the South African Banking Risk and Information Centre (SABRIC), thus keeping abreast of financial environment trends and developments.



This ensures our capacity to deliver best industry practise to the direct and indirect benefit of our stakeholders.

Media:

Our bank is cognisant of the need to position our brand in the public arena, making available newsworthy matters and events in the interests of keeping the public informed.

We accordingly strike and develop meaningful relationships with key members of South Africa's business and community media (print and electronic) in order to both proactively and reactively comment on matters of public importance.

Suppliers:

Returning to the theme of Broad-Based Black Economic Empowerment, we have implemented a preferential procurement policy.

Through such policy, we ensure the appropriate utilisation of suppliers from historically disadvantaged backgrounds, wherever possible.

Our pledge to following preferential procurement principles stems from the fact that our business is able to make a meaningful contribution to facilitating the sustainable growth and development of all smaller-scale enterprises with which it interacts.

As a further form of stimulus, we employ a fast-track payment system for these business entities, based on the successful completion and delivery to Al Baraka Bank of commissioned works, thus assisting in improving the cash flows of small and medium-sized business concerns.

Conclusion

The information documented here is regarded as a concise expression of the bank's fulfilment of its sustainability responsibilities, the execution of ethical management and control processes and the provision of effective stakeholder communication, as well as a growing commitment to environmental considerations.

In essence, our sustainability report is a measure of our repute within South Africa's financial sector and its position as a responsible corporate citizen.

Looking to the future as regards our sustainability initiatives, our bank is looking to expand and develop its reporting abilities.

In this regard, we intend implementing a number of initiatives, including the harnessing of grey water, beginning with our head office, for use in the irrigation of gardens, the maintenance of the basement parking area and the washing of the bank's fleet of vehicles.

In addition, we are investigating the feasibility of introducing solar cells to offset the powering of general lighting at head office and, ultimately, to extend this to the bank's facilities around the country, where viable. This will allow us to better focus on the integrated performance of the bank into the future.

Finally, no assurance has been attained relating to Al Baraka Bank's sustainability measures for the financial year under review.