



CORPORATE GOVERNANCE REPORT

THIS REPORT SEEKS TO INFORM THE BANK'S STAKEHOLDERS AS TO HOW THE BOARD OF DIRECTORS, THROUGH THE APPROPRIATE STRUCTURES WHICH HAVE BEEN PUT IN PLACE, OVERSEES THE PROCESS OF CORPORATE GOVERNANCE WITHIN THE CONTEXT OF THE BANKING AND BUSINESS ENVIRONMENT IN TERMS OF WHICH AL BARAKA BANK OPERATES.

The board of directors remains committed to good governance, which constitutes an integral part of the way in which the bank conducts its business operations. The board, supported by management, is committed to operating in an ethical and principled manner, maintaining communication with all our stakeholders in an open and transparent way. We believe that these are key principles; principles which will assist the bank achieve its strategic objectives, as determined by the board.

Given the commitment by the board of directors to the implementation of the highest standards of corporate governance throughout the organisation, the bank actively strives to apply the principles of King III to all aspects of the business, where deemed appropriate.

Where the board of directors holds the view that a particular principle of King III is not appropriate within the context of the business of the bank, an alternative approach, supported by sound reasons, may be proposed.

During the period under review, the board was once again satisfied with the way in which the bank had given effect to the recommendations of King III, or, where the recommendations were not appropriate to the nature of the bank's business, that alternative measures had been put in place.

Notwithstanding the challenges experienced by the bank during the course of 2014, the board of directors remains committed to its principal objective, which is to oversee the implementation of the highest governance standards throughout the bank and its operations.

Board of directors

Role and function of the board:

The board of directors, which is constituted in terms of Al Baraka Bank's Memorandum of Incorporation, is responsible for formulating the institution's strategy and business operations.

As the highest decision-making body of the bank, the board is ultimately responsible for the efficient functioning and well-being of the bank. In giving effect to its role as the custodian of corporate governance, the board acknowledges that one of its primary responsibilities lies in the positive performance of the bank, through the creation of value for all its stakeholders.

The board is also responsible for ensuring that the strategy remains in line with the values as determined by the bank.

The board operates within the framework of a written charter, which records the rights, duties and responsibilities of the board in a comprehensive manner. In practical terms, the charter constitutes the mandate of the board.

Given the nature of the changing business environment within

which the bank operates, this charter is subjected to regular review. At the time of review, the charter is assessed for compliance with the requirements of prevailing legislation, taking into account key changes which may have been introduced in terms of the Banks Act and the Companies Act.

This review also provides the board with an opportunity to determine how it is giving effect to its mandate.

The board charter records, inter-alia, the process to be followed for:

- Formulation of the bank's strategic plan and overall management of the bank;
- Determination of board committees;
- Implementation of effective risk management processes;
- Approval of budgets;
- Monitoring of the performance of the chief executive, the executive directors and the executive management team;
- Compliance with laws and regulations;
- Assessment of reputational risk;
- Communication with stakeholders;
- Directors selection, orientation and evaluation; and
- Board and board committee composition.

Board structure and composition:

Al Baraka has a unitary board structure.

As at 31 December 2014, the board comprised 12 directors. Of the directors, eight (67%) are independent non-executive directors, one (8%) is a non-executive director and three (25%) are executive directors. The executive directors consist of the chief executive, the chief operating officer and the financial director.

During the period under review, Mr Abdullah Ameen, who was the acting financial director, was appointed as financial director, with effect from 01 July 2014.

The board is mindful of the fact that a changing business environment and landscape brings with it new demands and challenges. With this in mind, the directors' affairs committee undertakes an annual review of the composition of the board to ensure that the board will be able to function both effectively and efficiently within its dynamic environment.

The review undertaken by the directors' affairs committee covers a wide spectrum of factors impacting upon the board composition, including the size of the board, the relevant skills and experience of the directors and whether any new skills are required, the demographic make-up of the board and the need to have sufficient directors in order to give effect to the requirements of the board committees, as well as the ever-evolving regulatory requirements of the banking sector.

The board brings independent, objective and diversified input to the process of decision-making. Through this process, the board ensures

that no single director or group of directors possesses dominant decision-making powers.

In giving effect to the recommendations of King III, the roles and responsibilities of the chairman and the chief executive have been appropriately defined and are separate.

The chairman of the board of directors is currently Mr AA Yousif, who is not independent as defined in terms of the governance codes. Mr Yousif is currently the president and chief executive of Al Baraka Banking Group, which is the major shareholder of Al Baraka Bank South Africa. As such, he does not qualify as an independent non-executive director.

The board considers Mr Yousif as being best-suited to fill the role of chairman, given his vast banking experience and deep understanding of the Al Baraka Banking Group.

In keeping with the governance codes, the chairman is appointed on an annual basis, with this principle also being extended to the vice chairman. As the chairman is not classified as an independent non-executive director, the position of lead independent director has been created, a position currently held by Mr SA Randeree.

Independence of directors:

The board of directors supports the principle of King III that the majority of non-executive directors should be independent, more especially as this will serve to reduce the possibility of a conflict of interest, whilst simultaneously promoting objectivity within the board decision-making process.

In giving practical effect to this principle, the board upholds the view that an independent director should be independent in both character and judgement, but more importantly, should also be independent in fact and in the perception of a reasonably informed person.

Given the emphasis placed upon the need for independent directors, the directors' affairs committee is responsible for conducting an annual review of the status of the directors whose position as a director is classified as independent.

The directors' affairs committee places special emphasis on those independent directors who have served on the board for a period longer than nine years.

The independent status of such directors is subjected to rigorous debate, with the ultimate objective of ensuring that there are no relationships or circumstances which could have a negative impact on their independence.

Currently, there are three independent directors who have served on the board for a period in excess of nine years. The directors' affairs committee considered their independence and after a robust review, declared that, notwithstanding their respective lengths of service on the board, Adv. AB Mahomed SC, Mr MS Paruk and Mr YM Paruk continue to meet all the requirements of an independent director.

The board of directors supported the views of the directors' affairs committee.

Succession planning:

Succession planning is a key factor in the development and evolution of the board of directors. Recognising the importance of succession planning to the long-term sustainability of the bank,

the directors' affairs committee undertakes an annual review of the composition of the board and the respective board committees.

The directors' affairs committee recognises that it is essential that the process of succession planning be conducted in a manner which is least disruptive to the functioning of the board.

For this reason, the directors' affairs committee subscribes to the view that succession planning should be conducted in a proactive and timely manner, seeking to bring on board new directors prior to the stepping-down of retiring directors.

In this way, new directors will be well-versed with the business of the bank.

Through its review of the composition of the board, the directors' affairs committee has made several recommendations to the board of directors in terms of its succession planning objectives.

As the process of director appointment is a function of various legal and regulatory requirements, both in terms of the Banks Act and the Companies Act, the succession planning objectives of the board remain ongoing at this stage.

The board also ensures that the bank has adequate succession plans in place at an executive level.

Strategy formulation:

The board of directors is responsible for determining the bank's strategic direction, which is based on an in-depth review of the drivers of the business, taking into account the diverse interests of the bank's set of stakeholders.

The board also monitors the implementation of the strategy across the bank on a regular basis.

The bank's corporate governance and risk management objectives are determined by the board for the year ahead, in terms of prevailing banking regulatory requirements.

The board also conducts an annual assessment as to whether the corporate governance and risk management objectives for the period under review were successfully achieved by the bank. Having conducted this assessment in the last quarter of the year under review, the board is satisfied that the 2014 corporate governance and risk management objectives have been satisfactorily fulfilled by the bank.

Delegation of authority:

Al Baraka Bank operates within the parameters of a well-defined governance structure, through which structure the board is able to retain control of the business of the bank.

The governance structure allows the board, which has defined its own levels of materiality, to delegate the necessary authority and powers to the respective board committees and chief executive, within the context of strategic and operational effectiveness and efficiencies.

The chief executive, acting in terms of his written authority from the board, delegates appropriate and relevant powers to management, such that the bank may conduct its business on a day-to-day basis. Notwithstanding this delegation of authority, the board and its directors do not relinquish their accountability. The delegated powers of authority are regularly reviewed to ensure that they

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remain up-to-date and, therefore, relevant within the life of the bank.

Director development and education:

The board places strong emphasis on the ongoing education of directors, to ensure that they remain au fait with the ever-changing legal environment and regulations, with particular reference to the banking sector.

In addition, directors are kept informed of developments and trends within the financial sector generally, as these could have a material impact on the bank and, consequently, its operations.

Directors are encouraged to attend appropriate external training programmes, the costs of which are borne by the bank. Ongoing training is also offered to the members of the board committees, such that they too may give effect to their mandates.

During 2014, the training topics for the board and the board committees included cyber crime, IT governance and corporate governance lessons from within the banking sector, as well as specialised training in respect of the functioning of the social and ethics committee.

Whilst the directors' affairs committee is responsible for overseeing the manner in terms of which director induction and training is given effect to, it is the responsibility of the company secretary to implement this from a practical perspective.

Upon appointment, directors are presented with a corporate governance pack consisting of relevant board policies, financial reports and information, board and board committee charters and appropriate minutes.

In addition, copies of legislation relevant to the banking sector, together with explanatory comments, also form part of the governance pack.

To facilitate the newly appointed directors process of induction into the bank, meetings with relevant members of management are arranged.

The balance of the induction programme is designed in such a way so as to meet the individual requirements of the new directors.

Performance evaluations:

The performance of the board and its committees is evaluated annually, with the purpose of determining their respective levels

of effectiveness.

Over and above the evaluation of the board and the board committees, an evaluation is also undertaken in respect of the chairman.

The individual directors complete a self-assessment questionnaire, the outcomes of which are discussed with the chairman and the lead independent director.

The purpose of the self-assessment questionnaire is to allow the directors, in a confidential and private manner, to discuss their contribution to the board.

Going forward, the scope of the evaluation process is to be broadened to include the company secretary, who will be subject to evaluation by the board.

The performance of the chief executive is evaluated in terms of his performance scorecard, which is submitted to the remuneration committee for approval.

Board Meetings:

The board of directors met on four occasions during the course of 2014, which is in accordance with the provisions of the board charter. Where a matter needs to be addressed between planned meetings, additional meetings may be convened for this purpose.

Board meeting dates are planned well in advance, with the objective of securing maximum attendance.

To this end, a year planner is developed in consultation with board members. The board's meetings with representatives from the Reserve Bank are also included in this process.

Whilst directors strive to attend board and board committee meetings in person, it is acknowledged that this will not always be possible. In such circumstances, every effort is made to ensure that the director in question is linked-up electronically, such that their views may still be heard and taken into account during board discussions.

As part of its efforts to reduce paper consumption, the board and board committees have made increasing use of its well-established directors' portal. Board papers are distributed two weeks prior to a board meeting, such that the directors' have sufficient time to prepare for board meetings.

Name of Director/ Member	Board	Audit	Risk and capital management	Board credit	Directors' affairs	Remuneration	Social and ethics
AA Yousif	4/4 ¹	-	-	-	-	-	-
SA Randeree	4/4 ²	-	-	4/4 ¹	2/2 ¹	1/3	-
F Kassim	4/4	-	-	-	2/2	-	-
A Lambat	4/4	4/5	4/4 ¹	-	-	-	-
Adv. AB Mahomed SC	4/4	5/5	4/4	-	-	3/3	-
MS Paruk	4/4	5/5 ¹	4/4	4/4	-	-	-
YM Paruk	4/4	-	4/4	-	-	3/3 ¹	2/2
M Youssef Baker	4/4	5/5	-	-	2/2	-	2/2 ¹
SAE Chohan	4/4	-	-	4/4	-	-	2/2
MG McLean	4/4	-	-	4/4	-	-	-
MJD Courtiade	4/4	-	4/4	-	-	-	-
A Ameen	2/4 ³	-	-	-	-	-	-
EM Hassan	-	-	-	4/4 ⁵	-	-	-
Y Nakhooda	-	-	4/4 ⁴	-	-	-	-

¹ = Chairman, ² = Vice chairman, ³ = Appointed as a director on 01 July 2014

⁴ = Risk manager, ⁵ = General manager: credit

Access to information

In order to familiarise themselves with the operations of the bank, directors enjoy unrestricted access to the bank's information.

Directors may also consult with external professional advisors on any subject impacting on the bank, should they so wish. In such instances, the costs of such external advice is at the expense of the bank.

Directors may, at their request, meet with representatives of management in the absence of executive directors, should they deem it necessary.

For purposes of courtesy, these meetings are facilitated through the office of the chief executive.

Board Committees

Whilst recognising that the board is responsible for the performance of the bank in its entirety, the board has established six permanent committees whose function it is to provide a specific focus on key specialised areas.

Through this process, the board committees assist the board of directors in discharging their obligations.

In addition to the audit committee, the risk and capital management committee, the board credit committee, the directors' affairs committee, the remuneration committee and the social and ethics committee, the board has also established a specialist property committee.

The primary function of the board property committee is to monitor the development of the bank's property, which it acquired at Kingsmead Office Park.

Once this property has been developed, the board property committee will cease to exist.

All the permanent board committees possess written terms of reference, which are regularly reviewed.

As part of the board's commitment to a transparent process of corporate governance, the respective committees provide the board with verbal feedback on the key issues as discussed at the most recent committee meetings. In addition, the minutes of all committee meetings are submitted to the board as part of the meeting papers.

Al Baraka's governance structure makes provision for the establishment of various management committees, whose purpose is to support the board and the board committees in giving effect to their respective mandates.

The management committees currently consist of the executive management committee, the executive credit committee, the management risk committee, the assets and liabilities committee, the FICA executive committee and the IT steering committee.

The key terms of reference of the board committees are set out as follows:

Audit Committee:

The key role of the audit committee is to ensure that management has created and maintained an effective control environment.

A summary of the key terms of reference of the audit committee includes the following:

- Consider the appointment of the external auditor and the audit fees;
- Discuss with the external auditor before the audit commences, the nature and scope of the audit;
- Review the interim and annual financial statements, before submission to the board;
- Review the internal auditor's report and the external auditor's management letter and management's response to their reports;
- Review the company statement on internal control systems, prior to endorsement by the board;
- Review the internal audit programme, ensure co-ordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the company; and
- Satisfy itself as to the expertise, resources and experience of management for the bank's financial function, on an annual basis.

Members of the audit committee are all independent non-executive directors and are financially literate.

The audit committee met on five occasions during 2014.



MS Paruk

Chairman: audit committee

Risk and capital management committee:

The role of the risk and capital management committee is to assist the board, as well as management, in addressing all aspects of risk impacting on the bank. A summary of the key terms of reference of the risk and capital management committee includes the following :

- Establish and implement the policies and procedures designed to ensure that the bank identifies, measures and reports all material risks;
- Approve a formal risk management functional plan for the ensuing year;
- Identify and regularly monitor all key risks and key performance indicators to ensure that its decision-making capability and the accuracy of its reporting is maintained at a high level;
- Ensure that a formal risk assessment is undertaken at least annually;
- Assist the board in developing a risk mitigation strategy to ensure that the bank manages the risks in an optimal manner;
- Assist the board in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the bank in the day-to-day management of its business; and
- Approve new products and ensure that adequate measures have been taken to address all related risks before making recommendations to board for the approval of such products.

The risk and capital management committee is chaired by an independent director and met on four occasions during the year under review.

The risk and capital management committee is satisfied that it discharged its responsibilities in accordance with its charter.



A Lambat

Chairman: risk and capital management committee



CORPORATE GOVERNANCE CONTINUED

Credit committee:

The role of the credit committee is to review, measure and manage Al Baraka Bank's overall credit risk strategy and to approve advances in terms of board-approved delegations.

A summary of the key terms of reference of the credit committee includes the following:

- Ensure that the bank's credit risk management process is aligned with the group's credit risk strategy;
- Approve advances in terms of delegated powers of authority;
- Review the bank's credit risk management policy for adequacy and ensure that such policy is approved by the board;
- Approve write-offs of debtor accounts within its delegated authority;
- Review and recommend to the board any change in strategy, marketing and business plans in respect of any financing activities of the bank;
- Review and evaluate any significant credit risks faced by Al Baraka Bank;
- Review advances approved by delegated sub-credit committees in terms of delegated levels of authority; and
- Review stress testing scenarios in respect of credit risks on an annual basis.

The credit committee is chaired by an independent director and met on four occasions in 2014.

The credit committee is satisfied that it discharged its responsibilities in accordance with the terms of its charter.

SA Randeree
Chairman: credit committee

Directors' affairs committee:

The role of the directors' affairs committee is to assist the board of directors in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structures and accompanying practices of the bank.

A summary of the key terms of reference of the directors' affairs committee includes the following :

- Identify, evaluate and recommend nominees to the board of directors in terms of an agreed process;
- Ensure that an appropriate induction training course is formulated and implemented for all new directors and that there is ongoing development for directors;
- Annually review the structure, size and composition of the board, taking into account the requirements of board sub-committees and make recommendations to the board regarding any required changes;
- Review the composition, skills, experience and other qualities required for the effective functioning of the board;
- Review and make recommendations on the re-election of directors;
- Consider methodologies for the annual assessment of the performance of the board and sub-committees and contribution of the individual directors by making recommendations to the board; and
- Maintain a board directorship continuity programme, which shall include:
 - Succession plans for the chairman and board sub-committees; and
 - Succession plans for executive directors, executive management and other senior management.

In terms of section 64B of the Banks Act, membership of the directors' affairs committee is restricted to non-executive directors.

The membership of the directors' affairs committee meets this requirement, with the chief executive attending meetings of the committee by invitation only.

The directors' affairs committee is chaired by an independent director and met twice during the course of 2014.

The directors' affairs committee is satisfied that it discharged it's responsibilities in accordance with its charter.

SA Randeree
Chairman: directors' affairs committee

Remuneration committee:

The role of the remuneration committee is to advise the board of directors on a wide range of human resource issues, with special emphasis on matters pertaining to remuneration and staffing.

A summary of the key terms of reference of the remuneration committee includes the following:

- Make recommendations to the board on matters, such as succession planning, both at senior management and executive management level, general staff policy, performance, remuneration, benefits, bonuses and incentive schemes;
- Ensure that the right calibre of executive senior management is attracted, retained, motivated and rewarded;
- Ensure that a comprehensive employment equity policy exists;
- Recommend to the board any share or share incentive scheme;
- Ensure that employees' incentive payments are linked to the contribution of the individual and business performance; and
- Assist in creating an environment where individuals who demonstrate the qualities of initiative, enterprise, ability, effort and loyalty are able to develop rewarding careers at all levels.

The remuneration committee is chaired by an independent director and met on three occasions during 2014.

The remuneration committee is satisfied that it discharged its responsibilities in accordance with the terms of reference of its charter.



YM Paruk

Chairman: remuneration committee

Social and ethics committee:

The role of the social and ethics committee is to monitor the bank's activities to ensure that they are conducted in an ethical manner and that they comply with legislation and best practice relevant to the banking sector.

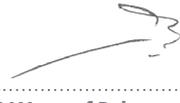
A summary of the key terms of reference of the social and ethics committee includes the following :

- Monitor the bank's activities with regard to matters relating to:
 - Social and economic development;
 - Good corporate citizenship, including the bank's commitment to its corporate social responsibility programme, the environment, health and public safety;
 - Consumer relationships; and
 - Labour and employment.
- Report, through the chairman, to the shareholders at the bank's annual general meeting, on matters within its mandate.

The social and ethics committee is chaired by an independent director and met on two occasions during 2014.

The composition of the social and ethics committee met the requirements of Regulation 43 of the Companies Act.

The social and ethics committee is satisfied that it discharged its responsibilities in accordance with the terms of reference of its charter.



M Youssef Baker

Chairman: social and ethics committee

CORPORATE GOVERNANCE CONTINUED

Prescribed officers:

In terms of the Companies Act regulations, a person is a prescribed officer if that person:

- Exercises general executive control over and management of the whole, or a significant portion of the business and activities of the company; or
- Regularly participates, to a material degree, in the exercise of general executive control over and management of the whole, or a significant portion of the business and activities of the company.

Based on this requirement, the board has confirmed that the prescribed officers of the bank are the executive directors, namely the chief executive, the chief operating officer and the financial director.

Company secretary:

The company secretary, who is responsible for board administration matters, serves as a link between the board of directors and the bank.

A key function of the company secretary is to keep the board of directors informed as to changes in best governance practice and relevant legislation, insofar as it may impact upon the board and the organisation.

Directors have access to the services of the company secretary and are satisfied that an arm's length relationship exists between it and the company secretary. The company secretary is neither a director nor a prescribed officer of the bank.

Ethics:

Conducting business in an ethical way forms the basis of Al Baraka Bank's approach to business.

The board of directors recognises that such an approach is vital to the sustainability of the business and the interests of stakeholders.

This approach is reflected in the bank's code of conduct, with all employees being required to adhere to the code, both in spirit and in deed. In support of the code, the board of directors has committed itself to a zero tolerance approach in respect of ethical misconduct.

Codes of transformation:

Al Baraka Bank remains committed to the objectives set-out in the Financial Sector Code.

In terms of its current rating, the bank is classified as a Level 4 contributor.