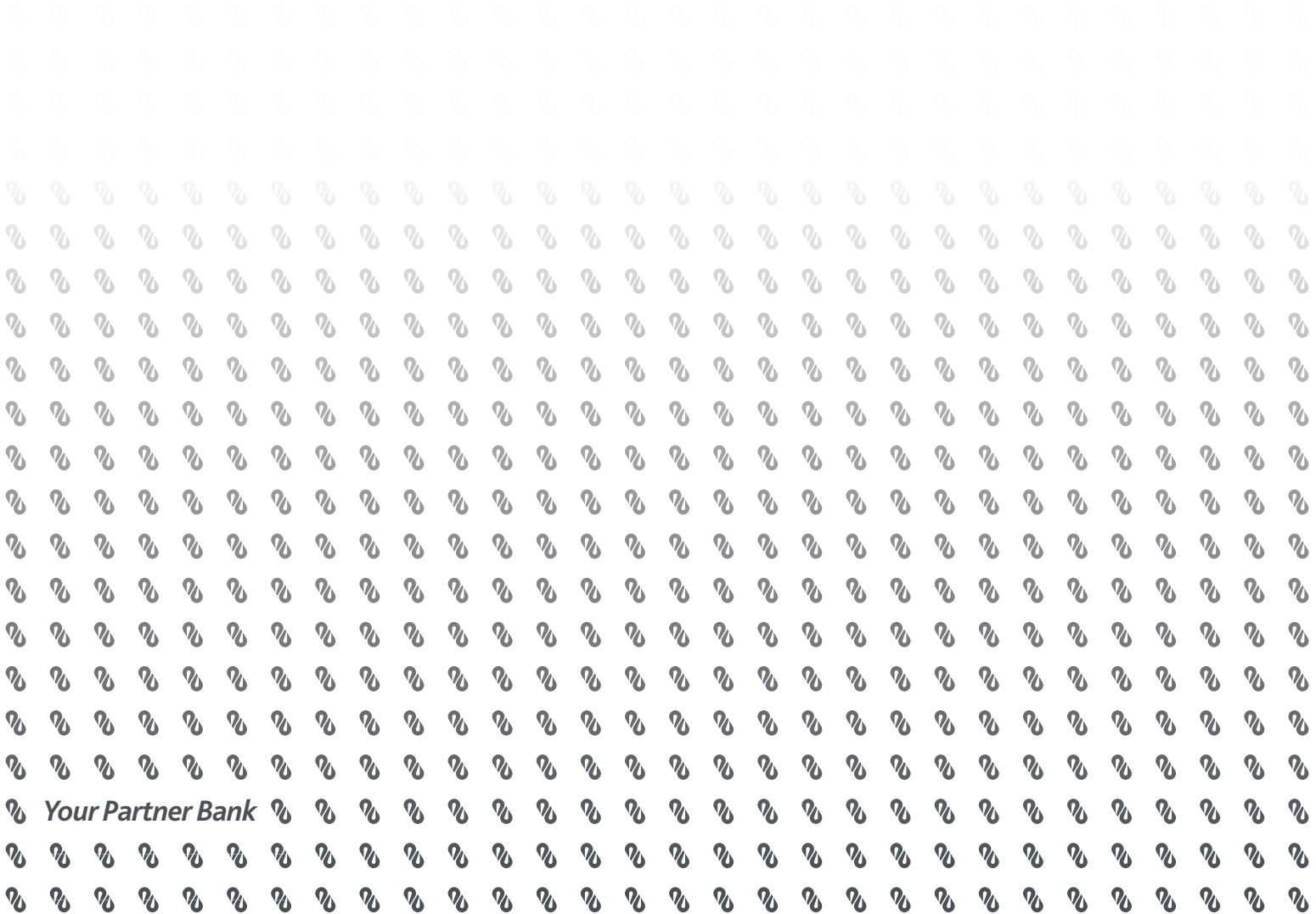


A B R I D G E D

# INTEGRATED ANNUAL REPORT 2017



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## VISION

We believe society needs a fair and equitable financial system; one which rewards effort and contributes to the development of the community.

## MISSION

To meet the financial needs of communities across the world by conducting business ethically, in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success.

## VALUES

### Partnership

Our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff;

### Driven

We have the energy and perseverance it takes to make an impact in our customers' lives and for the greater good of society;

### Neighbourly

We value and respect the communities we serve. Our doors are always open; our customers always experience a warm-hearted, hospitable welcome and accommodating service;

### Peace-of-mind

Our customers can rest assured that their financial interests are being managed by us to the highest ethical standards;

### Social contribution

By banking with us, our customers make a positive contribution to a better society; their growth and our growth will benefit the world around us.

## CODE OF BUSINESS CONDUCT

Al Baraka Bank has in place a Code of Business Conduct which gives effect to the business culture of the financial institution and actions of its employees. Principles contained in the Code of Business Conduct include:

- Reflecting the Islamic economic system and complying with Shariah requirements in all activities undertaken by the bank;
- Conducting its affairs with integrity, sincerity and accountability, whilst displaying the highest moral standards;
- Achieving customer service excellence as a way of life in a proactive and dedicated way;
- Displaying the highest levels of customer confidentiality at all times;
- Creating opportunities for the commitment, loyalty and growth of staff;
- Conforming with International Financial Reporting Standards and to Accounting and Auditing Organisation for Islamic Financial Institutions Standards, as well as complying with all laws and regulations;
- Addressing all instances of commercial crime by adopting a policy of zero tolerance against offenders;
- Avoiding being compromised by conflicts of interest; and
- Instilling in staff a discipline of avoiding private business relationships with customers and suppliers.

**THE FULL 2017 AL BARAKA BANK INTEGRATED ANNUAL REPORT MAY BE VIEWED AND/OR DOWNLOADED BY VISITING:**

[http://www.albaraka.co.za/About alBaraka/Financial Information/Annual Reports/AnnualReport2017.aspx](http://www.albaraka.co.za/About%20alBaraka/Financial%20Information/Annual%20Reports/AnnualReport2017.aspx)

# REPORT



## AL BARAKA BANK WELCOMES YOU, OUR VALUED STAKEHOLDER, TO THIS OUR 2017 ABRIDGED INTEGRATED ANNUAL REPORT, REFLECTING THE BANK'S 01 JANUARY TO 31 DECEMBER 2017 REPORTING PERIOD.

This abridged integrated annual report provides stakeholders with an easily understood and concise oversight of the bank's past performance and future prospects, featuring a business profile, a 10-year review of significant financial information, its leadership and business footprint and joint statement by the chairman and chief executive, as well as material issues we face with regard to governance, sustainability, compliance and adherence to Shariah principles.

As a commercial banking institution and South Africa's only fully-fledged Islamic bank, our overarching objective is to contribute meaningfully to the provision of a fair and equitable financial system; one which rewards effort and contributes to the development of the community.

We seek to meet the financial needs of communities by conducting business ethically, in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits

with the customers, staff and shareholders who participate in our business success.

In the preparation of this report, we remain cognisant of the bank's pre-determined reporting requirements, together with those prescribed by South Africa's financial regulating bodies. However, materiality is determined by our board of directors, in line with the requirements of our shareholders and other key stakeholder groups. We are constantly aware of the guiding principles contained in the South African Generally Accepted Accounting Principles, the Banks Act, Act No. 94 of 1990, the Companies Act, Act No. 71 of 2008, and the King Code of Governance for South Africa.

Our bank adheres to a philosophy of integrated thinking, reflected in the strategic direction we adopt in giving effect to delivery against our Vision statement.

### DECLARATION

Al Baraka Bank's audit committee assumes responsibility for appraising and submitting our integrated annual report, together with annual financial statements, to the board of directors for review and approval.

The board, having given due consideration to the report, is of the opinion that it satisfactorily addresses all relevant material issues and fairly represents the business and financial performance of the bank.



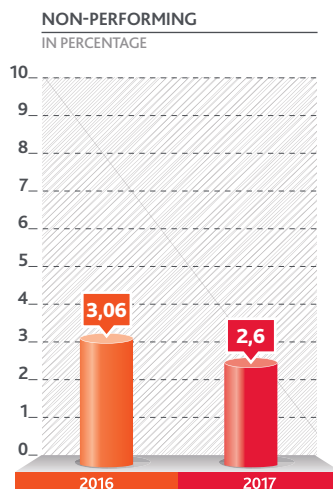
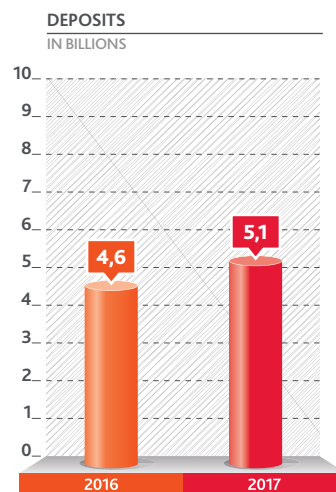
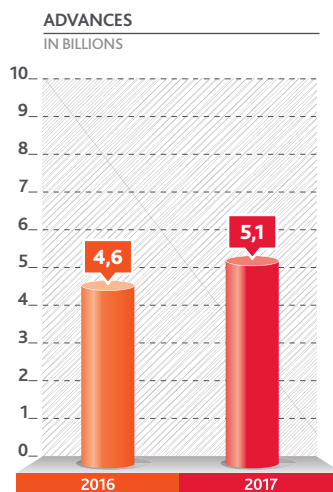
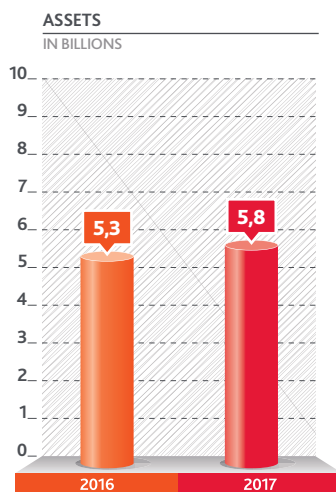
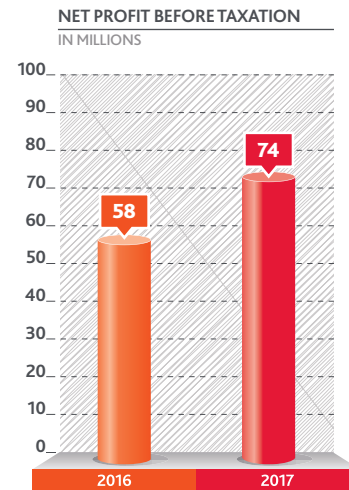
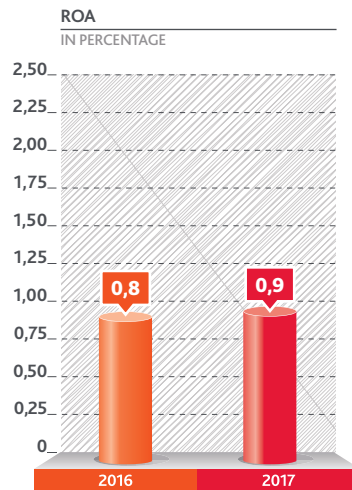
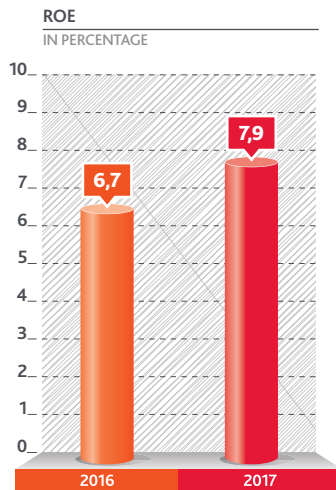
**Adnan Ahmed Yousif**  
Chairman

23 March 2018



**Shabir Chohan**  
Chief executive

# INDICATORS





	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Statement of Financial Position (Rm)</b>										
Share capital	322	322	322	322	225	225	225	150	150	150
Shareholders' interest	662	627	601	560	381	362	347	233	228	217
Deposits from customers	5 078	4 634	4 426	4 230	3 941	3 322	2 881	2 571	2 130	1 624
Advances and other receivables	5 111	4 646	4 473	4 242	3 753	3 269	2 826	2 395	2 057	1 604
<b>Total Assets</b>	<b>5 880</b>	<b>5 329</b>	<b>5 058</b>	<b>4 814</b>	<b>4 411</b>	<b>3 716</b>	<b>3 246</b>	<b>2 825</b>	<b>2 381</b>	<b>1 871</b>
<b>Statement of Comprehensive Income (Rm)</b>										
Profit before taxation	74	58	76	55	40	34	26	17	18	31
Total comprehensive income for the year	51	41	56	40	29	25	16	11	18	21
<b>Share Statistics (Cents)</b>										
Basic and diluted earnings per share	158	128	171	154	129	112	77	74	125	145
Headline earnings per share	162	127	171	154	129	114	76	69	121	144
Dividend per share	50	50	45	45	45	45	45	45	45	35
Net asset value per share	2 052	1 943	1 866	1 736	1 692	1 608	1 541	1 551	1 522	1 446
<b>Ratios (%)</b>										
Return on average shareholders' interest	7,9	6,7	9,5	8,5	7,8	7,1	4,6	4,8	8,2	10,4
Return on average total assets	0,9	0,8	1,1	0,9	0,7	0,7	0,5	0,4	0,9	1,2
Shareholders' interest to total assets	11,3	11,8	11,9	11,6	8,6	9,7	10,7	8,2	9,6	11,6

**SHAREHOLDERS' INTEREST**

Ordinary share capital, share premium, non-distributable reserves and distributable reserves.

**RETURN ON AVERAGE SHAREHOLDERS' INTEREST**

Total comprehensive income for the year, expressed as a percentage of the weighted average shareholders' interest adjusted relative to the timing of the introduction of any additional capital in a particular year.

**RETURN ON AVERAGE TOTAL ASSETS**

Total comprehensive income for the year, expressed as a percentage of the weighted average total assets in a particular year.

**BASIC AND DILUTED EARNINGS PER SHARE**

Total comprehensive income for the year, divided by the weighted average number of ordinary shares in issue adjusted relative to the timing of the issue of any additional ordinary shares in a particular year.

# LEADERSHIP

## AL BARAKA BANK EMPLOYS A UNITARY BOARD STRUCTURE COMPRISING:

6 INDEPENDENT NON-EXECUTIVE DIRECTORS

1 NON-EXECUTIVE DIRECTOR

4 EXECUTIVE DIRECTORS

### BOARD OF DIRECTORS:

During the 2017 financial year, Al Baraka Bank's highly skilled and dedicated board of directors comprised the following members:

#### NON-EXECUTIVE DIRECTORS

**AA Yousif (62)** - Bahraini  
Chairman

**MBA**  
Joined the board in 2005  
President and chief executive: Al Baraka Banking Group

#### INDEPENDENT NON-EXECUTIVE DIRECTORS

**SA Randeree (55)** - British  
Vice chairman and lead independent director

**BA (Hons), MBA**  
Joined the board in 2003  
Board committee memberships  
■ DAC □ BCC ■ REMCO

**F Kassim (59)** - Sri Lankan

**EMP - Harvard Business School**  
Joined the board in 2006  
Board committee memberships  
□ DAC □ SEC

**A Lambat (59)** - South African

**CA (SA)**  
Joined the board in 2006  
Board committee memberships  
■ RCMC □ BCC □ AC

**MS Paruk (63)** - South African

**CA (SA), F. Inst.D**  
Joined the board in 2004  
Board committee memberships  
■ BCC □ RCMC □ AC □ REMCO

**NJ Kunene (61)** - South African

**B.Com, MBA, Post-Graduate Diploma: Business Management**  
Joined the board in 2015  
Board committee memberships  
■ SEC □ DAC

**YGH Suleman (60)** - South African

**CA (SA), Chartered Director (SA)**  
Joined the board in 2016  
Board committee memberships  
■ AC □ REMCO

#### EXECUTIVE DIRECTORS

**SAE Chohan (52)** - South African  
Chief executive

**CA (SA)**  
Joined the board in 2004  
Board committee memberships  
□ SEC □ BCC

**MJD Courtiade (64)** - French  
Chief risk executive

**CA (SA)**  
Joined the board in 2004  
Board committee memberships  
□ RCMC

**A Ameen (36)** - South African  
Financial director

**CA (SA)**  
Joined the board in 2014  
Board committee memberships  
□ BCC

**M Kaka (38)** - South African  
Chief operating officer

**CA (SA)**  
Joined the board in 2015

#### BOARD COMMITTEE LEGEND:

- AC - Audit committee
- RCMC - Risk and capital management committee
- BCC - Board credit committee
- DAC - Directors' affairs committee
- REMCO - Remuneration committee
- SEC - Social and ethics committee
- Committee chairman

#### ADMINISTRATION:

**Company secretary**  
CT Breeds BA LLB

#### Shariah Supervisory Board

Dr. AS Abu Ghudda, Chairman (Syrian)  
Mufti SA Jakhura  
MS Omar B.Com LLB  
Mufti Z Bayat

#### Registered office

2 Kingsmead Boulevard, Kingsmead Office Park  
Stalwart Simelane Street, Durban, 4001

#### Transfer secretaries

Computershare Investor Services (Pty) Ltd.  
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

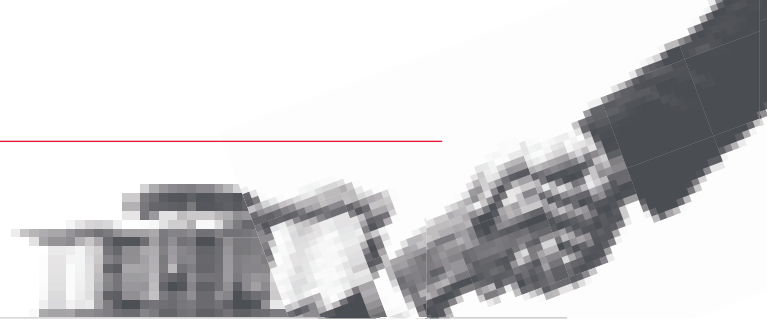
#### Auditors

Ernst & Young Inc.  
1 Pencarrow Crescent, Pencarrow Park  
La Lucia Ridge Office Estate, Durban, 4051

#### COMPANY DETAILS

Registered name: Albaraka Bank Limited  
Registration Number: 1989/003295/06  
FSP Number: 4652  
NCR Registration Number: NCRCP14  
Albaraka Bank Limited is an Authorised Financial Services and Credit Provider  
Albaraka Bank Limited is an Authorised Dealer in Foreign Exchange

# FOOTPRINT



**HEAD OFFICE:**

2 Kingsmead Boulevard, Kingsmead Office Park  
Stalwart Simelane Street, Durban, 4001  
PO Box 4395, Durban, 4000

**AL BARAKA BANK'S SOUTH AFRICAN BUSINESS NETWORK INCLUDES:**

**REGIONAL OFFICE**

- Gauteng

**CORPORATE OFFICES**

- Durban  
- Gauteng  
- Cape Town

**PROFESSIONAL OFFICE**

- Gauteng

**RETAIL BRANCHES**

- Kingsmead (Durban)  
- Overport (Durban)  
- Fordsburg (Johannesburg)  
- Lenasia (Johannesburg)  
- Rosebank (Johannesburg)  
- Laudium (Pretoria)  
- Athlone (Cape Town)

**CUSTOMER SERVICES:**

Call: 0860 225 786  
Email: [Customerservices@albaraka.co.za](mailto:Customerservices@albaraka.co.za)  
SMS: 43893  
Web: [www.albaraka.co.za](http://www.albaraka.co.za)  
WhatsApp: +27 84 786 6563

**DURBAN-BASED AL BARAKA BANK, REPRESENTED ACROSS SOUTH AFRICA, IS A SUBSIDIARY OF BAHRAIN-BASED AL BARAKA BANKING GROUP, AN ACCLAIMED GLOBAL LEADER IN ISLAMIC BANKING.**

**AL BARAKA BANKING GROUP**

The group currently has a presence in 15 countries around the world, operating in excess of 700 branches. Its expansionist strategy saw the 2017 establishment of BTI Bank S.A. in Morocco, together with preliminary moves to develop an East African presence, as a region with an appetite for Shariah-compliant banking.

Al Baraka Banking Group also continued its impressive growth trajectory in 2017, in spite of a difficult global economy, as evidenced by its 2017 financial results, which illustrated growth in assets. Total assets exceeded US\$25,5 billion in 2017, an increase of 9,0% over the 2016 financial year. The period also saw the group's exceptionally successful launch of a \$400 million Sukuk (Islamic bond), which rapidly became over-subscribed.

Al Baraka Banking Group regards banking as integral to society and maintains that it has a decisive role to play in safeguarding resources placed in the care of bankers. It is unwavering in its reliance, globally, on Shariah principles and plays an important role in the successes of clients and advancement of society, including both businesses and individuals.

**FINANCIAL PERFORMANCE: SOUTH AFRICAN SUBSIDIARY**

In line with the measured resurgence of the South African economy, we were pleased to have posted encouragingly positive financial results for the 2017 financial year.

Net income before tax for 2017 amounted to R74,1 million, up 27,0% over the previous year's R58,0 million, attributable - to some extent - to a gradual improvement in prospects for the economy. Total assets increased by 10,0% from R5,3 billion in 2016 to R5,8 billion in 2017, while our pragmatic management of capital requirements saw advances growth of 12,0%, or R529,0 million, against 6,5% or R247 million in 2016. Our 2017 financial performance is most encouraging, given prevailing economic and social concerns and flow from a series of 2016 bank-implemented growth initiatives.

In line with our ongoing strategy, the review period also saw our implementation of the second phase of Sukuk (Islamic bond), introduced the previous year as a mechanism to ensure the efficient management of our capital requirements. This mobilised R10,0 million in the 2017 financial year.

The period also saw our commencement of interaction with this country's financial regulators with regard to the legal framework behind and regulatory requirements for the potential issuance of a locally-issued Sovereign Sukuk.

A buoyant retail foreign exchange market led to substantial growth in transactions during 2017, with unprecedented demand for our bouquet of foreign exchange services by those travelling internationally. This was driven, to a great extent, by our 0% commission offering, highly competitive rates and outstanding service.

It was further offset by growing uptake of our Shariah-compliant Forward Exchange Cover product, introduced during the course of 2016 as an extension to our foreign trade facilities. The product immediately sparked great interest by clients looking to hedge against foreign currency risk through the ability to purchase forward cover from the bank.

In addition and given our commitment to actively embracing the digital age, we moved to finalise the first of a planned series of banking Apps during 2017. Our Foreign Exchange App was introduced to ensure our clients' ability to interact with the bank anytime, anywhere, creating significantly improved foreign exchange service efficiency. On the back of the success of these new product offerings, the bank also established a fully Shariah-compliant seven-day short-term returns product and introduced a Premium Plus Account, which is expected to significantly increase deposits with the bank into the future. Importantly, too, we took steps to appreciably improve the functionality of our debit card option, expanding its usage base by creating the ability for clients to now operate their debit cards internationally, while also introducing a 'card not present' transaction mechanism. We regard these innovations as a notable step forward in the ongoing quest to improve and expand our product and service offering, so better meeting the growing demands of our client base.

In similar vein, we undertook a re-evaluation of the manner in which we interact with our clients and the channels available for such linkages. Whilst actively and effectively utilising traditional communication conduits, we recognise the need in today's digital world to further embrace social platforms. Accordingly, the bank has developed a smart phone-enabled process for swiftly interacting with clients and addressing queries. In a further digital development, we implemented paperless application procedures for clients wishing to take-up our foreign exchange and transactional banking services. The decision, taken in the interests of improving client service and becoming significantly more efficient in our interaction with clients and prospective clients, paves the way for the introduction of further paperless application options going forward. Our paperless philosophy and automation capabilities also gave effect to the conducting of director evaluations digitally, a move which has had an instantly positive impact. Importantly and in line with the technological advances made, we introduced a new software system in 2017, enabling the bank to conduct internal audits quickly and efficiently.

From an operational perspective, rapidly growing calls for our Shariah-compliant banking services necessitated a substantial upgrade and extension to our Laudium, Pretoria, branch during the course of 2017. This was complemented by the completion of phase one of an upgrade to our Athlone, Cape Town, branch. Phase two is planned for implementation during 2018. In a further 2017 infrastructural development, we responded to phenomenal growth experienced in the Gauteng region by transforming our incredibly popular dedicated foreign exchange bureau, located in the heart of Rosebank's trendy business area, into a full branch. It now offers a complete suite of products and services for the benefit of our clients there, many of whom are professionals.

It is particularly gratifying to note the continued growth in client levels and frequency of transactions in Gauteng, Western Cape and KwaZulu-Natal, indicative of the increasing trend towards Islamic banking as a viable alternative to traditional banking in South Africa; a trend mirrored globally, with Islamic banking regarded as one of the fastest growing sectors world-wide.

Regrettably, however, 2017 also witnessed a decision to close our Port Elizabeth outlet, which was established in 2008, but which failed to gain traction. Although the outlet represented less than 1% of our total book, its closure did not result in our withdrawal from servicing clients in and around this Eastern Cape city. We instead used our technological ability to introduce a considerably more efficient 'virtual' banking service, with existing Port Elizabeth clients being serviced electronically via our Kingsmead, Durban branch.

Our adoption of technology has, without question, considerably boosted business efficiencies, in turn giving effect to an easy, seamless and rewarding banking experience for all our clients and, especially those in Port Elizabeth, whose best interests remain dear



# STATEMENT



to us. We continue working to enhance client linkages, creating mutually beneficial relationships, whilst continuing to ensure the financial well-being of all those using our services.

## MANAGING RISK

Cyber crime and money laundering are increasing globally and South Africa is not immune to the effects of this scourge. We take the threat of cyber crime and money laundering most seriously. The bank is an active member of the South African Banking Risk Information Centre (SABRIC) and our strategic relationship with this organisation better equips us to manage and assess cyber crime risk and has resulted in our implementation of policies and procedures to control and deal with the global blight of cyber attacks.

Recent legislative revisions have also prompted us to tighten our anti-money laundering capabilities, with the 2017 introduction of a new automated system to identify risk. This is evidence of our ongoing commitment to statutory and regulatory requirement compliance.

Confirmation of the conservative nature of our bank's credit policies vests in the considerable resources we invested during 2017 in ensuring the successful implementation by 01 January 2018 of a new International Accounting Standards Board accounting standard. The execution of International Financial Reporting Standard (IFRS) 9: Provisions, has resulted in a positive impact on the bank, with an envisaged decrease in historical provisions made by the bank.

## DIVIDEND

We are pleased to report that for the 12th consecutive year, Al Baraka Bank has declared a dividend for the benefit of shareholders. The board-approved dividend for the 2017 financial year was 50c per share.

## CUSTOMER SERVICE

We have long regarded client service excellence as a way of life and strive constantly to enhance our ability to better and more efficiently meet and exceed client expectations. In a move designed to take the bank's client experience to an altogether new level, we have approved and are set to implement, as part of an Al Baraka Banking Group-wide initiative, a key project. This project entails replacing our entire banking system with a radically upgraded version by the year 2020, introducing markedly better operational efficiencies and the streamlining of our client service abilities.

## SHARIAH COMPLIANCE

During 2017, we devoted time and resources to the evaluation of a new guideline provided by the regulating authority in Bahrain, giving consideration to the further formalisation of the structures and objectives governing Shariah compliance. The guideline, which is currently being analysed, will have important and far-reaching consequences and once implemented is poised to give effect to the considerable improvement of governance in terms of Shariah compliance into the future.

## FAREWELL TO RETIRING DIRECTOR

We take this opportunity to formally bid farewell to Mr Jacques Courtiade, a long-serving executive director of the bank, who is set to retire on 31 March 2018.

Mr Courtiade joined the bank as our financial director in 2004, serving both bank and board with distinction and contributing in no small measure to the steady growth trajectory we have enjoyed over past years. He was appointed chief operating officer in 2013, with Mr Abdullah Ameen assuming the position of financial director. In 2017, Mr Courtiade relinquished his position to take up the role of chief risk officer, responsible for the bank's regulatory, compliance, risk and credit activities. Executive director, Mr Mohammed Kaka, who was appointed a director in 2015, replaced Mr Courtiade as chief operations officer, assuming responsibility for corporate and retail branch operations, whilst retaining responsibility for our electronic

banking and international banking activities. We, on behalf of the board, thank Mr Courtiade most sincerely for his positive involvement in the development of the bank and, accordingly, wish him every success for the future.

## FUTURE PROSPECTS

Looking to the future, our board has approved a new strategy, designed to ensure that our business becomes ever more closely aligned with Al Baraka Banking Group's international strategy.

This involves four key objectives, nine initiatives and 16 action plans which, combined, will give effect to an intense focus on the segmentation of our marketing efforts in terms of five major revenue streams, being advances, deposits, foreign exchange, transactional banking and unit trusts.

Such concentration aims to significantly increase non-funding income levels for the benefit of the bank.

## APPRECIATION

In conclusion, the growth and development of our banking business during the reporting period is testament to the ever-increasing commitment displayed by our numerous stakeholders.

We must, therefore, express our thanks to Al Baraka Banking Group for its constant support of our business unit; support which has, in no small measure, contributed appreciably towards the business successes from which we have benefited in the past.

We also extend our grateful thanks to the members of our board, individuals who have given so willingly of their time and expertise to lead the bank on the path to growth and development and whose decision-making has been to the ultimate benefit of our many shareholders and, more especially, clients. There can be no doubt that it is their continuous drive and application of their business acumen which keeps our bank at the cutting-edge of Islamic banking in South Africa.

It would be remiss of us not to thank our executive team, senior management and members of staff for their extra-ordinary effort, commitment and diligence in 2017. We are grateful to have within our ranks a staff team whose dedication to the bank and its clients is quite exceptional.

Finally, to our clients and shareholders, thank you for your ongoing support of Al Baraka Bank. It is our pleasure to serve you and we look forward to continuing to forge mutually beneficial and long-term relationships with you going forward.

We now look to the future with confidence. Our objective, as we embark on another financial year, is quite simple; it is to deliver the energy and apply the perseverance necessary to impact positively on the lives of our clients and shareholders, for the greater good of society.

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

Adnan Ahmed Yousif  
Chairman

Shabir Chohan  
Chief executive

23 March 2018

## AL BARAKA BANK'S BOARD OF DIRECTORS IS COMMITTED TO ETHICAL AND EFFECTIVE LEADERSHIP IN PURSUIT OF ITS GOVERNANCE OUTCOMES.

### AL BARAKA BANK'S GOVERNANCE JOURNEY TO KING IV

The King IV Report on Corporate Governance was launched in November 2016 and became effective for financial years starting on or after 1 April 2017. The board approved Al Baraka Bank's King IV implementation process over three phases during the course of 2017, comprising:

- The formulation phase;
- The identification and collation phase; and
- The implementation and reporting phase.

The board has supervised the successful completion of this three-phased implementation of King IV principles.

### 2017 GOVERNANCE REVIEW

The board has successfully led Al Baraka Bank in the discharge of its governance responsibilities for 2017. This was primarily in relation to:

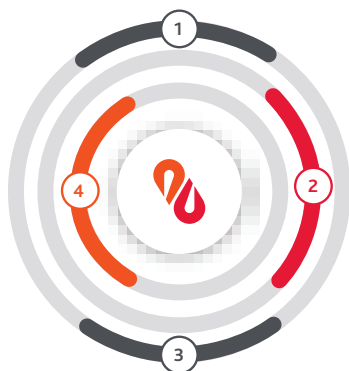
- Steering and setting strategic direction for Al Baraka Bank;
- Approving policy and planning that give effect to the strategy and the set direction;
- Overseeing and monitoring implementation and execution by management; and
- Ensuring accountability for the bank's performance through ongoing reporting and disclosures.

In addition, the board continues striving to ensure that it gives effect to the governance outcomes envisaged by King IV, which comprise:

- The development and maintenance of an ethical culture;
- Good performance;
- Effective control; and
- Legitimacy.

### STRATEGY FORMULATION

The board approves the long-term and short-term strategies for the bank, ensuring that these strategies are aligned with the four strategic objectives of Al Baraka Banking Group. These four strategic objectives comprise:



- 1 INCREASING RETURNS TO SHAREHOLDERS AND DEPOSITORS
- 2 DEVELOPMENT OF INNOVATIVE PRODUCTS
- 3 IMPROVING CUSTOMER SERVICE AND STAFF SATISFACTION
- 4 ENHANCEMENT OF TECHNOLOGY AND INTERNAL PROCESSES

During 2017, the board unpacked these strategic objectives into nine initiatives and 16 action plans to specifically ensure the strategy of the bank meets the expectations of key stakeholders. The board is satisfied that the objectives, which it set for 2017, have been satisfactorily achieved.

### ROLE AND FUNCTION OF THE BOARD

The board functions within the ambit of a comprehensively written charter, which is subjected to regular review and complies with the provisions of the Companies Act, the Banks Act and the bank's Memorandum of Incorporation. In addition, the board oversees and approves the bank's management structure, which directs and executes all functions within the business. In 2017, the board met on four occasions and once separately with the Reserve Bank, which meeting formed part of the Reserve Bank's regulatory programme. The board places great value on such meetings with the Reserve Bank, which allows the board to engage with this key regulator in an open and transparent manner.

### BOARD STRUCTURE AND COMPOSITION

Al Baraka Bank has a unitary board structure comprising 11 directors, six of whom are classified as independent non-executive directors, whilst one is classified as a non-executive director with the remainder of the directors being executive directors. The executive directors comprise the chief executive, the chief operating officer, the chief risk executive and the financial director.

### BOARD COMPOSITION



- 6 INDEPENDENT NON-EXECUTIVE DIRECTORS
- 1 NON-EXECUTIVE DIRECTOR
- 4 EXECUTIVE DIRECTORS

The board enjoys a broad range of skills, experience and industry knowledge, which enables robust decision-making and strategy setting, as well as ensuring the appropriate balance of power and authority so that no single individual has unfettered decision-making powers.

### APPOINTMENT OF THE CHAIRMAN AND LEAD INDEPENDENT DIRECTOR

The roles of the chairman and chief executive are well-defined and separated. The chairman of the board, Mr AA Yousif, is the only director classified as being 'non-executive' by virtue of the fact that he holds the position of president and chief executive of Al Baraka Banking Group. The board has confirmed Mr Yousif as the chairman for the 2018 financial year, given his extensive knowledge of, and experience in, the banking industry as a whole. The board has adopted the additional governance practice of electing, on an annual basis, a deputy chairman who serves as a lead independent director. In this way, the bank's governance practices are and remain transparent and in-keeping with the spirit of the King Code.

# REPORT



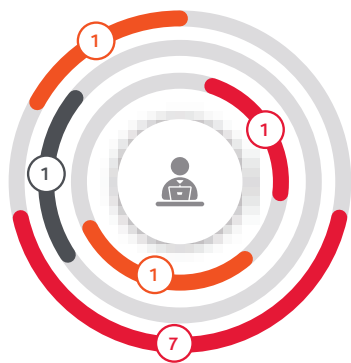
The role of the lead independent director is covered under King IV and includes, among others:

- Leading in the absence of the chairman;
- Acting as an intermediary between the chairman and the other members of the board; and
- Chairing discussions and decision-making on matters where the chairman has a conflict of interest.

Mr SA Randeree has occupied the position of deputy chairman and lead independent director for the past several years and has, accordingly, been confirmed to continue these responsibilities for 2018.

An annual review is undertaken by the director's affairs committee in respect of the composition of the board and the respective board committees, which includes an assessment of the skills, experience and overall contributions made by the current set of directors serving on the board. Having conducted its review of the board and board committee composition earlier in 2017, the board supported the recommendations made by the directors' affairs committee that there be rotation of chairmanships across some of the board committees in 2017, in order to give effect to specific governance objectives.

## DIRECTOR NATIONALITY



- 7 SOUTH AFRICAN
- 1 BRITISH
- 1 BAHRAINI
- 1 SRI LANKAN
- 1 FRENCH

This process commenced with Mr MS Paruk stepping down as chairman of the audit committee and assuming the chairmanship of the board credit committee, which entailed the current chairman, Mr Randeree, standing down as chairman of the board credit committee. Mr Randeree also assumed the chairmanship of the remuneration committee, pursuant to the retirement of Mr YM Paruk.

During the course of 2017, the bank bade farewell to two long-serving directors of the board, being Mr MG McLean and Mr YM Paruk, both of whom stepped down in terms of the bank's succession planning objectives.

## FUTURE PLANNING

The board fully embraces the King IV recommendations of setting targets in respect of transformation and gender representation

on the board. It is anticipated that 2018 will see the addition of new skills and talent to the board, taking into account the board's succession plans.

## DIRECTOR AGE ANALYSIS



- 2 UNDER 50 YEARS
- 4 BETWEEN 50-60 YEARS
- 5 OVER 60 YEARS

The board also regularly monitors whether there is appropriate succession planning at executive and senior management level, regarded as key to the continued growth and sustainability of the bank.

## DIRECTOR INDEPENDENCE

The director's affairs committee reviews the independence of directors annually for approval by the board. In terms of the King IV recommendations, the board is required to assess the independence of those independent directors who have served on the board for more than nine years. The independent status of such directors is subjected to rigorous debate, ensuring that board members continue to exercise objective judgement and that there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making of the respective board member.

The directors' affairs committee considered the independence of those directors who have served for longer than nine years and declared that, notwithstanding their respective lengths of service on the board, these directors continue to meet the requirements of an independent director, as set out under King IV.

## DIRECTOR INDUCTIONS

Whilst there were no director appointments during 2017, the board has in place a well-developed induction programme. Key features of this programme include:

- An extensive overview of the business operations of Al Baraka Bank;
- Engagements with key members of management staff; and
- Enrolment with an external institution on board and board leadership matters.

## ONGOING DIRECTOR DEVELOPMENT AND TRAINING

From a development perspective, the board supports and encourages ongoing director development, designed to foster improved governance practices, not only within the board, but throughout the organisation. Directors are kept informed of developments pertaining to legislation and regulations which impact on the bank's business framework. Where appropriate, directors are encouraged to attend external training courses, the costs of which are borne by the bank.

## REPORT

During the course of 2017, the board was informed of the latest developments in the spheres of Cloud Computing, Blockchain Technology and an awareness session in respect of Risk Data Aggregation and Risk Reporting principles. Given the increased importance placed on ethical leadership under King IV, the chairman of the social and ethics committee, Mr NJ Kunene, attended a workshop in respect of the Governance of Ethics by the Ethics Institute of South Africa.

It is anticipated that greater business and regulatory demands will be placed on the directors in 2018, given the disruptive nature of the modern economic environment. Coupled with increasing legal responsibilities, the identification and undertaking of relevant director training will assume significant focus in 2018.

### PERFORMANCE EVALUATIONS

Board performance evaluations remain an integral part of assessing the performance and effectiveness of the board, its committees, its chairman and its individual members, along with the chief executive and the company secretary. Given the recent King IV developments with regard to performance evaluations and the usage of external facilitators, the board has supported the utilisation of electronic evaluations for 2017, which was facilitated by an industry-leading external service provider. It is anticipated that this process will enable the board to make an informed assessment of its strategic objectives for 2017 in an efficient and meaningful manner.

### BOARD AND COMMITTEE ATTENDANCE

The table below records the attendance of the board and board committee members in respect of the board and board committee meetings which were held in 2017.

### BOARD COMMITTEES

The board committees assist the board in the discharge of its duties and responsibilities. Each board committee has formal written terms of reference which record the rights, powers, duties and functions of the respective board committees and which are subject to regular review. Recognising the board's responsibility for the

overall performance of Al Baraka Bank, the board has appointed six standing committees to assist it in the meeting of its objectives.

These include:

- 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 board property committee which oversees the future development of the bank's Kingsmead Office Park property. It is envisaged that upon completion of the property development, this committee will have concluded its mandate and will be disbanded.

The bank's governance framework also includes various management committees, whose objectives are to support the board and board committees in the execution of their mandates.

They include:

- The executive management committee;
- The executive credit committee;
- The management risk committee;
- The assets and liabilities committee;
- The FICA executive committee;
- The IT steering committee; and
- The crisis management committee.

Full disclosure of the board committees may be found in the un-abridged version of the 2017 Annual Report.

### COMPANY SECRETARY

The board is assisted by a competent and suitably qualified company secretary. The company secretary is not a director of the company and has an arm's-length relationship with the board. In addition to guiding the board on discharging its duties and responsibilities, the company secretary keeps the board abreast of relevant changes in legislation and governance best practice.

Name of Director/Member	Board	Audit	Risk and capital management	Board credit	Directors' affairs	Remuneration	Social and ethics
AA Yousif	4/4 <sup>1</sup>	-	-	-	-	-	-
SA Randeree	4/4 <sup>2</sup>	-	-	4/4	2/2 <sup>1</sup>	2/2 <sup>1</sup>	-
F Kassim	4/4	-	-	-	2/2	-	2/2
A Lambat	4/4	5/5	4/4 <sup>1</sup>	3/4	-	-	-
N Kunene	4/4	-	-	-	2/2	-	2/2 <sup>1</sup>
YGH Suleman	3/4	5/5 <sup>1</sup>	-	-	-	2/2	-
MG McLean	1/4 <sup>5</sup>	-	-	1/4 <sup>5</sup>	-	-	-
MS Paruk	4/4	5/5	4/4	4/4 <sup>1</sup>	-	2/2	-
YM Paruk	1/4 <sup>5</sup>	-	1/4 <sup>5</sup>	-	-	-	-
SAE Chohan	4/4	-	-	4/4	-	-	2/2
MJD Courtiade	4/4	-	4/4	-	-	-	-
A Ameen	4/4	-	-	4/4	-	-	-
M Kaka	3/4	-	-	-	-	-	-
EM Hassan	-	-	4/4 <sup>4</sup>	4/4 <sup>4</sup>	-	-	-
Y Nakhooda	-	-	2/4 <sup>3</sup>	-	-	-	-

1 = Chairman

2 = Deputy chairman and lead independent director

3 = Risk manager

4 = General manager: credit

5 = Retired in April 2017

## "ACTIVELY PRODUCING A SUSTAINABILITY REPORT REFLECTS A COMMITMENT TO BUSINESS TRANSPARENCY AND ACCOUNTABILITY."

### PREFACE

Transparency and sustainability of operation are regarded as integral components for a sustainable economy. Stakeholders must be afforded the opportunity to hold enterprises to account and to inject capital into those which deliver innovation of thought and proactive business solutions.

Sustainability reporting is a means of demonstrably improving a company's commitment to sustainable development for the benefit of stakeholders, internal and external. Such improvement in performance enables them to impact positively on the future of society and the economy.

### BANK'S APPROACH

Ethical banking forms the cornerstone of Al Baraka Bank's commitment to the furtherance of sustainability initiatives, in line with the well-established triple context framework comprising the economy, environment and society.

Giving effect to our strategic objectives, we strive to stimulate the growth of the economy and the development of society, recognising the unique dynamics of the South African business and social landscape. Accordingly, our sustainability reporting is designed to provide an understanding of our economic performance, environmental impact and social conscience. Our ongoing transparency of action indicates an enhanced business reputation, a sound balance sheet, ethical banking practices within the context of the financial services sector, greater business efficiencies and responsible environmental practices in the eyes of our stakeholders.

### STRATEGIC BUSINESS OBJECTIVES

Al Baraka Bank's key business objectives include:

- To increase returns to shareholders;
- The promotion of customer service excellence;
- The development of innovative products; and
- The utilisation of enhanced technology.

### IDENTIFYING RISK AND OPPORTUNITY

Our risk and capital management committee is responsible for the identification and assessment of risks which could befall the bank. These risks are monitored by the committee on a quarterly basis through the effective utilisation of a long-established risk control assessment register.

Globally, climate change is viewed as a major risk to business. This is particularly pertinent in the South African context, given the prolonged and devastating drought affecting, especially, the Western Cape, home to the bank's busy Athlone branch. We have taken a number of steps to address this risk, not least of which includes re-emphasising for all staff the need for extreme levels of water conservation in an increasingly water-scarce country.

Other risks addressed by the committee include that of money laundering and cyber crime. Legislative changes have resulted in our implementing enhanced technology designed to identify the risk associated with money laundering. In addition, Al Baraka Bank is a member of the South African Banking Risk Information Centre, which enables us to remain at the forefront of developments and solutions in the field of cyber crime. In this regard, the bank has implemented policies and procedures to control and deal with such risk.

### CORPORATE GOVERNANCE AND SUSTAINABILITY

With the launch of the King IV Report on Corporate Governance at the end of 2016, Al Baraka Bank's board has approved its King IV implementation process.

Functionally, the bank's directors' affairs committee assumes responsibility for company-wide adherence to best governance practice. In giving effect to the bank's governance ethos, we adopt an inclusive stakeholder model of governance. In so doing, we acknowledge all identified stakeholder groups in our promotion of ethical behaviour across every facet of our business.

From a Shariah perspective, the bank adheres to business principles and standards as set-out by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In terms of Shariah governance, we are prohibited from conducting certain banking business practices.

### SUSTAINABLE DEVELOPMENT DELIVERY

Recognising the importance of operating within the triple context framework, we proactively address issues within the economic, environmental and social arenas, as follows:

#### • ECONOMIC ISSUES

As a commercial bank, Al Baraka is a valued business role-player within South Africa's financial industry sector and the greater economy. Notwithstanding the country's prevailing economic difficulties, the bank consistently maintains a positive growth trajectory.

In addition, consideration for Islamic banking, as an alternative to conventional banking, continues gaining considerable traction in South Africa in line with global trends, which reflect Islamic banking as one of the world's fastest growing sectors.

#### • ENVIRONMENTAL ISSUES

Al Baraka Bank is aware of and concerned about environmental degradation, especially the damaging role played by business. Accordingly, we have proactively assigned our social and ethics committee with responsibility for minimising our bank's environmental impact.

We are cognisant of the need to address various components of our business in this regard.

**Occupational health and safety:** Occupational health and safety revolves around fostering a safe and healthy work environment for staff, customers, service providers and other stakeholders with whom we may interact in the workplace.

We accept having a legal and moral obligation to protect all those with whom our business deals against environmental hazards. In so doing, we have implemented a set of effective operating standards as part of a dynamic prevention programme, inclusive of:

- The implementation of a comprehensive occupational health and safety policy;
- The formation of an occupational health and safety committee - which meets quarterly - comprising 20 members of staff, drawn from the bank's branches across the country;
- The training of occupational health and safety representatives, first-aiders and fire marshals;
- The undertaking of monthly inspections, including detailed checklists and gap analyses per branch; and
- The execution of at least one planned fire drill per annum per branch, which training adds value through the effective safeguarding of staff and clients in the event of an emergency.



# REPORT

## CONTINUAL IMPROVEMENT CYCLE

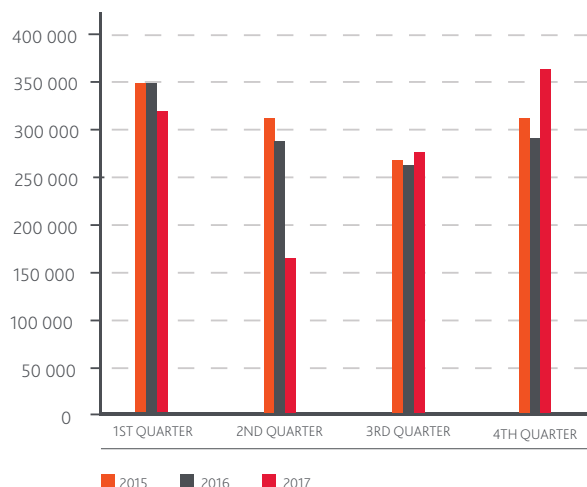


- 1 HEALTH AND SAFETY, PRODUCTIVITY, SATISFACTION, IMAGE
- 2 HAZARD, INJURIES AND ILLNESS, OPERATING COSTS, RISK
- 3 POLICY MANAGEMENT
- 4 PLANNING
- 5 IMPLEMENTATION
- 6 CORRECTIVE ACTION
- 7 MANAGEMENT REVIEW

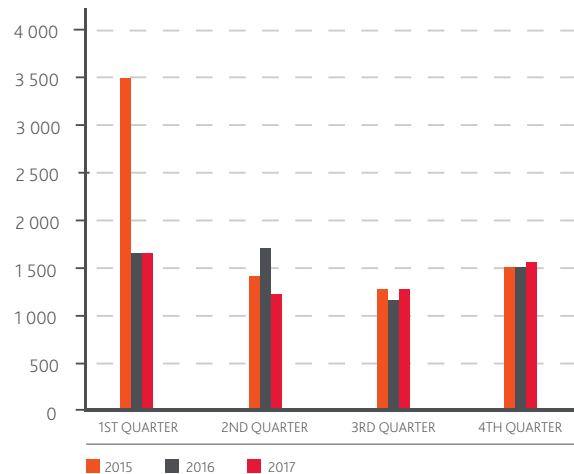
**Electricity and water consumption:** Al Baraka Bank measures both electricity and water consumption with a view to ensuring a notable reduction in the utilisation of both these resources.

The following graphs reflect quarterly consumption of both electricity and water on a quarterly basis for the comparative periods 2015 to 2017.

## ELECTRICITY CONSUMPTION IN KW FOR 2015/16/17



## KINGSMEAD WATER CONSUMPTION IN KL FOR 2015/16/17



**Other initiatives:** The bank has also implemented several other initiatives aimed at reducing our paper and electrical footprint. These include:

- Scanning of all documentation, creating an electronic warehouse for archive and security purposes;
- Implementing a customer on-boarding project designed to enable clients to apply for products and services electronically;
- Shredding used paper and cardboard for recycling purposes, for which a document destruction certificate is issued by the recycling service provider;
- Recycling used toner containers; and
- Installing motion detectors, LED and energy-saver light bulbs at the bank's head office to further reduce energy consumption.

## • SOCIAL ISSUES

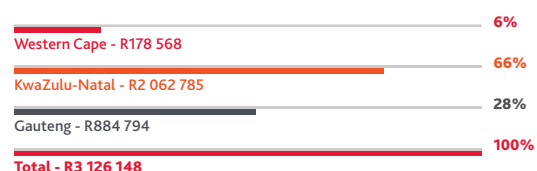
We are cognisant of the fact that the South African business community has a responsibility to address the country's social challenges, assisting to develop and empower disadvantaged communities, regardless of race, religion or gender.

In view of this, Al Baraka Bank has in place a long-standing corporate social investment programme, monitored by its social and ethics committee and practically administered by the bank's social responsibility committee. This committee strongly encourages members of staff to voluntarily participate in a variety of identified empowerment projects undertaken by the bank.

Our strong corporate social investment policy is driven by a mandate from the Bahrain-based Al Baraka Banking Group, as the bank's primary shareholder. Our social responsibility efforts revolve around three principle sectors, being education, health and welfare.

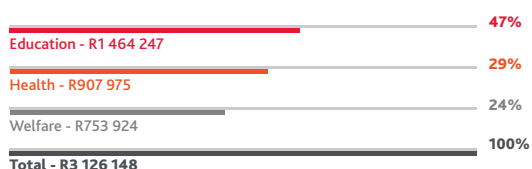
During the 2017 financial year, we donated R3,1 million to projects within these fields, the breakdown of which is depicted in the following tables, together with a further R10,2 million to a charitable trust.

## GEOGRAPHICAL DISTRIBUTION - 2017





### SECTORAL DISTRIBUTION - 2017



### STAKEHOLDER ENGAGEMENT

By considering the triple context framework and through the bank's board-approved stakeholder engagement policy, we have identified key stakeholder groups with whom the bank interacts, as set-out in the diagram below.



In line with King IV recommendations, the bank has introduced various measures to ensure effective stakeholder engagement, inclusive of establishing a dedicated stakeholder committee, comprising members of both executive and senior management. This committee convened twice during 2017, outlining various strategic engagements.

#### CLIENTS

We have long regarded client service excellence as a way of life and encourage staff to 'live' service excellence in their every interaction with clients. Our goal is to better and more efficiently meet and exceed client expectations across every aspect of our business.

Client engagement enables us to:

- Meaningfully address the financial expectations of our clients;
- Augment the client experience through the provision of professional advisory services;
- Foster an exceptional banking experience for clients, in-branch and online;
- Source information from clients to meet regulatory requirements in a client-friendly manner;
- Address client queries, concerns and complaints efficiently and effectively; and
- Encourage clients to anonymously report suspected instances of fraudulent behaviour to an externally-operated anti-fraud hotline.

#### STAFF

Direct engagement with members of staff, who are regarded as

being the bank's single most important resource, enables us to:

- Offer a safe and innovative working environment;
- Inculcate a service excellence culture within the bank;
- Involve staff in being an integral part of the drive to roll-out the bank's business strategy;
- Identify staff needs and deliver viable solutions; and
- Encourage members of staff to behave in an ethical manner at all times.

We take most seriously the need for effective:

**Talent acquisition:** Applying stringent processes to ensure the attraction of high-calibre members of staff who are the ideal culture-fit for the bank;

**Training for excellence:** Adopting a blended learning approach, coupled with coaching and mentoring, so as to impact positively on the development of staff;

**Planning for succession:** Implementing an accelerated career development programme for 'high flyers' with a view to replacing long-serving members of staff who are due to retire, so providing for seamless succession;

**Diversity management:** Ensuring dignity, trust and mutual respect for all within the bank's diverse business environment;

**Transformation and employment equity:** Offering career growth prospects to suitably qualified, historically disadvantaged individuals, including women and the disabled;

**Employee wellness:** Encouraging staff to make healthy lifestyle choices, creating opportunities for members to consult health-care professionals, where appropriate;

**Staff communication:** Promoting regular and ongoing communication with members of staff to ensure their understanding of the bank's strategy and business direction. This is achieved through a range of communication platforms, including:

- Regular briefings by the chief executive;
- Access to the intranet;
- Use of several social media channels;
- Opinion surveys;
- Specialist staff presentations on selected topics;
- Dissemination of an e-Newsletter; and
- Access to an anonymous tip-offs facility.

#### SHAREHOLDERS

Direct engagement with shareholders enables the bank to warrant that shareholders are adequately informed of developments relevant to their shareholding, including the bank's financial statements and the passing of resolutions which impact on the company's business.

Engagement provides for:

- The sharing of information at annual general meetings of the bank;
- The updating of shareholder records; and
- The provision of literature relevant to shareholders.

#### COMMUNITY

Direct engagement with the community enables the bank to nurture strategic relationships, including, but not limited to, client-related linkages and social and environmental obligations.

Engagement provides for:

- Personal interaction with community members;
- Identification of community needs;
- Identification of potential event sponsorship opportunities;
- Targeted dissemination of community-relevant literature pertaining to the bank and its role; and
- The exploration of the potential for digital communication with communities across the country.

# REPORT

## REGULATORY AND INDUSTRY BODIES

Direct engagement with regulatory and industry bodies enables the bank to establish and sustain meaningful working relationships, founded on the premise of transparency and honesty. We enjoy cordial relations with the financial sector's regulatory and industry bodies, interacting with:

### REGULATORY BODIES:

- The South African Reserve Bank;
- The Companies and Intellectual Property Commission;
- The Financial Intelligence Centre;
- The National Credit Regulator;
- The South African Revenue Service; and
- The Financial Services Board.

### INDUSTRY BODIES:

- The Banking Association of South Africa;
- The Banking Ombudsman;
- The Payments Association of South Africa; and
- The South African Banking Risk and Information Centre.

### MEDIA

Direct engagement with the media enables the bank to build relationships with senior business editors and writers within a range of titles/channels across the country, including national, provincial and community print and electronic media. This ensures that Al Baraka Bank becomes known for:

- The role it plays in growing Islamic banking, as a viable alternative to conventional banking;
- The widespread awareness of the growth of Islamic banking in South Africa and beyond, as well as Al Baraka Bank's role in providing Shariah-compliant financial services;
- Being an authoritative and credible source of comment regarding financially-related matters; and
- Being the source of trustworthy, authoritative and newsworthy bank and finance-related articles.

### SUPPLIERS AND CONTRACTORS

Direct engagement with suppliers and contractors, in line with our preferential procurement policy, enables us to:

- Source materials and services in accordance with the Broad-

Based Black Economic Empowerment requirements of said policy;

- Give effect to the sustainable development of small business enterprises through a variety of initiatives, such as early payment solutions for services rendered and materials supplied, as well as the provision of business advisory services, as necessary;
- Ensure, through our supply chain function, the development of economically-viable and environmentally-conscious business enterprises; and
- Source materials and services through locally-based service providers for the benefit of the national economy, wherever possible.

### ISLAMIC SCHOLARS AND ORGANISATIONS

Direct engagement with Islamic scholars and organisations enables the bank to communicate its role and business activities effectively and efficiently, through a range of channels, including that of both personal and electronic interaction.

### CONCLUSION

Al Baraka Bank regards sustainability reporting as more than simply sharing collected data, but instead as a measure of our organisational commitment to self-assessment and continuous improvement.

Our sustainability report encapsulates the organisation's journey, as a responsible corporate citizen, to the fulfilment of the triple context framework, comprising the economy, environment and society within which we operate.

Whilst having embarked upon this crucial journey, we recognise that we have further inroads yet to make. We are, however, intent on following through, introducing additional measures and indicators to better assess our progress and so ensure that the bank remains transparent and accountable for its actions.

Whilst remaining committed to the disclosure ideals of sustainability reporting, we acknowledge that we are not yet in a position to report fully and, therefore, note that no assurance has been attained relating to the bank's sustainability measures for the 2017 financial year.





# REPORT



## THE DEMANDS OF REGULATORY REFORM ARE UNWAVERING, OFTEN COMPLEX AND COSTLY - YET EXTREMELY NECESSARY TO KEEP MATTERS IN GOOD STEAD, ESPECIALLY DURING THE PREVAILING TURBULENT TIMES.

The 2017 financial year brought with it extensive changes to the regulatory landscape.

The Twin Peaks model is ground-breaking for the country; strong market conduct requirements will certainly bolster the value an organisation shows a client which will, in turn, result in more favourable consumer activity.

We are confident that the full impact of this new model will be very positive and far-reaching.

The Financial Sector Regulation Act provides the architecture for the new Twin Peaks method of regulation which is to be adopted across the South African financial services industry.

Currently in South Africa, all banks are regulated by the Banking Supervision Department of the South African Reserve Bank and all non-bank financial institutions (financial services providers, insurers, pension funds, collective investment schemes and market infrastructures) are regulated by the Financial Services Board.

The Financial Sector Regulation Act creates two brand new regulators, namely the Prudential Authority and the Financial Sector Conduct Authority.

The Prudential Authority will be responsible for regulating the prudential aspects of banks and all non-bank financial institutions, whilst the Financial Sector Conduct Authority will be responsible for regulating market conduct and the safety of financial consumers.

Practically, this new set-up will see the dissolution of the Banking Supervision Department of the South African Reserve Bank, its replacement being the Prudential Authority, whilst the Financial Services Board will be transformed into the Financial Sector Conduct Authority.

The South African Reserve Bank will sit above these two new regulators.

The Financial Intelligence Centre Amendment Act, another exceptionally important piece of legislation affecting the country's ongoing relationship with the Financial Action Task Force (FATF), featured quite significantly during 2017.

As promised, the National Treasury consulted with industry bodies, thus ensuring a smooth guidance period. The requirements of the Amendment Act will signify a change from the previous rules-based approach to a more robust risk-based approach.

This will allow financial institutions the ability to formulate rules to suit their unique risk appetite, although guided by relevant legislation, industry standards and international best practice. In addition, financial institutions will be able to concentrate their efforts on high-risk matters, thereby meaningfully mitigating the risk factors suffered by banks.

The first prescribed requirement to create a Compliance and Risk Management Programme allows financial institutions the freedom of writing into policy the terms and conditions they wish to adopt, although subject to the guidance provided by the authorities. These

enhancements will entrench South Africa's role as a key player in the global fight against financial crime, as well as its commitment to the FATF.

### TWIN PEAKS REGULATORY REFORM



The required changes to systems and controls to ensure compliance with the new regulations has commenced and is expected to take our bank to a higher level of efficiency.

We are confident that greater emphasis on risk evaluations and more enhanced screening processes will result in increasingly refined interaction with our clients.

The continuously changing regulatory requirements demand that the board, executive team, management and members of staff are kept informed of the impact of these changes, as well as the affected policies and processes that need to be invoked to effect the changes.

The bank's regulatory universe, containing legislation impacting the business, continues to play a significant role within our compliance department.

It is a critical function of compliance to interact with the various divisions within the bank to ensure that appropriate controls are in place, so ensuring compliance with various legislative requirements, regulations, supervisory requirements and international best practice.

Compliance works with business to maintain controls and safeguards, thereby ensuring that the bank is not vulnerable to money laundering, fraud and other risks.

The robust monitoring programme also ensures that we maintain a watchful eye on the level of compliance applied by line management throughout the organisation.

Monitoring in respect of the Financial Advisory and Intermediary Services (FAIS) Act, AML/CTF and various other legislation remain at the top of the list of our compliance function's priorities.

The organisation maintains a strong stance on training and strives to ensure that staff are exposed to relevant and appropriate training before they consult with relevant stakeholders.

Compliance continues to work with human resources to ensure that our members of staff receive training appropriately in line with their functions and purpose.

On an ongoing basis, staff are provided training on both legislation impacting the bank and the various policies and procedures of the bank.

Training relating to compliance issues, especially legislation matters, is co-ordinated and managed jointly by the human resources and compliance divisions. This approach has been adopted to ensure that staff are provided the requisite practical understanding and knowledge of legislation by subject matter experts.

Non-compliance with legislation and/or the policies and procedures

# REPORT

of the bank is viewed in a very serious light, to the extent that any such breaches result in disciplinary action, especially as regards any wilful or repeated errors. The bank imposes a zero tolerance policy on non-compliance with any legislation.

The compliance division also works hand-in-hand with the secretariat, risk and internal audit divisions, ensuring adequate observance of corporate governance by the bank.

The combined efforts of these functions has resulted in the formulation of a bank-wide combined assurance model, in line with the requirements of King III and IV.

The compliance officer is invited to attend meetings of the audit committee, risk committee and the board and also enjoys representation at various EXCO meetings. Compliance also serves on a range of strategic forums and committees and provides guidance to the board and our management team, in terms of regulatory matters.

Forums include project committees, new product committees and the procedure review committee, as well as a number of ad hoc committees established for specific purposes.

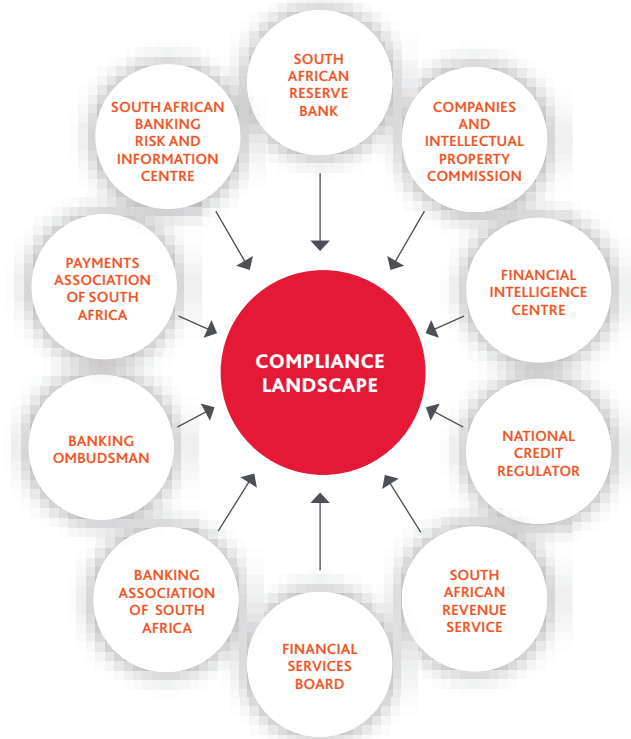
Compliance also maintains healthy, sustainable relationships with key industry stakeholders and acts as the primary interface between various regulatory bodies and the bank, as and when required.

The compliance division actively engages with various committees of the Banking Association of South Africa, the South African Banking Risk Identification Centre and a number of other ad hoc committees, so affording the bank the opportunity to make an impact on regulatory reform affecting the industry and country.

The division remains committed to ensuring the application of a philosophy of strict adherence to the letter of the law and best practise requirements.

We never falter in the application of our strict code of conduct and maintain strong corporate governance ties in all of our dealings.

## THE BANK'S COMPLIANCE LANDSCAPE



## FOR THE YEAR ENDED 31 DECEMBER 2017 IN THE NAME OF ALLAH, THE ALL COMPASSIONATE, THE MOST MERCIFUL

### TO THE SHAREHOLDERS OF ALBARAKA BANK LIMITED

We have reviewed the principles and contracts relating to the transactions and products introduced by Al Baraka Bank during the year under review. We have also conducted our review to form an opinion as to whether Al Baraka Bank has complied with applicable Shariah Rules and Principles, the rulings set out by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and the resolutions issued by the Shariah Supervisory Board of the bank.

Al Baraka Bank's management is responsible for ensuring that the bank complies with Islamic Shariah Rules and Principles. It is the Shariah Supervisory Board's responsibility to form an independent opinion, based on its review of the operations of Al Baraka Bank, and report to you.

We conducted our review, which included examining, directly or indirectly through the Shariah Department, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the bank, including interviews with members of management.

The scope of the audit included:

- Murabaha Financing;
- Musharaka Financing;
- Equity Murabaha Transactions;
- ABL Sukuk;

- Islamic Wills;
- Profit Distribution;
- Management Accounts;
- Disposal of Impermissible Income;
- Calculation of Zakah;
- FOREX Transactions; and
- Banking and Finance Fees

We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Al Baraka Bank has not violated Islamic Shariah Rules and Principles.

In our opinion:

1. The contracts, transactions and dealings entered into by Al Baraka Bank during the year under review are generally in compliance with applicable Shariah Rules and Principles;
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with applicable Shariah Rules and Principles;
3. An amount of impermissible income has been designated to be paid to charity;
4. In relation to certain transactions which were erroneously transacted, we directed management to rectify the same; and
5. Zakah of the bank was calculated at 45 cents per share. Shareholders are advised to discharge this Zakah individually, as the bank is not mandated to discharge this on their behalf.

*We beg the Almighty to grant us all success in this World and the Hereafter.*



**Dr Abdus Sattar Abu Ghudda**  
Chairman



**Shaykh Mahomed Shoaib Omar**  
Member



**Mufti Shafique Jakhura**  
Member



**Mufti Zubair Bayat**  
Member

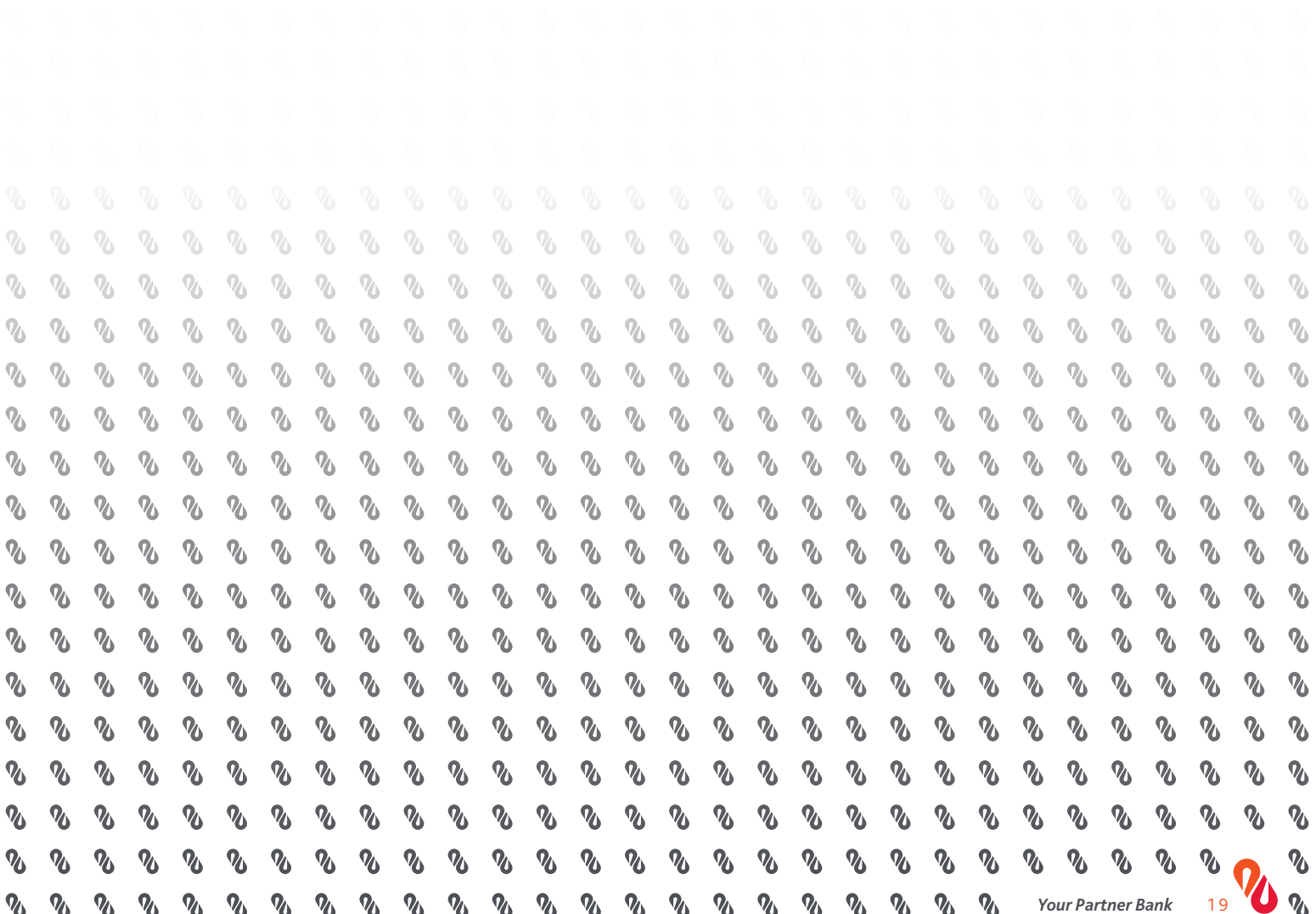
05 February 2018



 *Your Partner Bank* 

A B R I D G E D

# ANNUAL FINANCIAL STATEMENTS 2017



## STATEMENTS

<b>NATURE OF BUSINESS</b>	Financial Services
<b>AUDITORS</b>	Ernst & Young Inc.
<b>REGISTERED OFFICE</b>	2 Kingsmead Boulevard Kingsmead Office Park Stalwart Simelane Street Durban, 4001  P O Box 4395 Durban 4000
<b>PARENT AND ULTIMATE HOLDING COMPANY</b>	Al Baraka Banking Group B.S.C.
<b>REGISTRATION NUMBER</b>	1989/003295/06
<b>COUNTRY OF INCORPORATION</b>	Republic of South Africa

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The financial statements of Albaraka Bank Limited have been audited in compliance with S30 of the Companies Act of South Africa. Sumeshion Chetty CA (SA), general manager: finance, of Al Baraka Bank, was responsible for the preparation of the annual financial statements and Abdullah Ameen, CA (SA), the financial director, was responsible for the review of the financial statements.

# DIRECTORS' RESPONSIBILITY STATEMENT AND COMPANY SECRETARY STATEMENT

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## THE COMPANY'S DIRECTORS ARE RESPONSIBLE FOR THE PREPARATION AND FAIR PRESENTATION OF THE GROUP ANNUAL FINANCIAL STATEMENTS AND COMPANY ANNUAL FINANCIAL STATEMENTS,

comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, the statement of changes in shareholders' equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. The company's directors are also responsible for the preparation and fair presentation of the audit committee report, company secretary statement and directors' report.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management, as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the group's and company's ability to continue as a going concern and there is no reason to believe the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the group annual financial statements and separate company annual financial statements are fairly presented in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### Approval of group annual financial statements and company annual financial statements

The group and company annual financial statements were approved by the board of directors on 23 March 2018 and signed on their behalf by:



.....  
**Adnan Ahmed Yousif**  
Chairman



.....  
**Shabir Chohan**  
Chief executive

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### COMPANY SECRETARY STATEMENT

In terms of the provisions of the Companies Act, I certify that Albaraka Bank Limited has lodged with the Commissioner of the Companies and Intellectual Property Commission all such returns and notices prescribed by the Companies Act, and that all such returns and notices are true, correct and up-to-date.



.....  
**Colin Breeds**  
Company secretary  
Durban  
23 March 2018

## STATEMENT OF FINANCIAL POSITION

## FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP		COMPANY	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
<b>Assets</b>				
Property and equipment	113 627	114 388	60 139	70 817
Investment properties	10 502	10 502	-	-
Intangible assets	29 329	26 152	29 329	26 152
Investment in and amount due by subsidiary company	-	-	19 108	11 972
Deferred tax asset	4 723	2 117	31 372	26 634
Investment securities	25 717	24 925	25 717	24 925
Advances and other receivables	5 110 818	4 645 935	5 110 667	4 645 786
South African Revenue Service receivables	1 215	3 345	1 158	3 290
Regulatory balances	337 650	294 958	337 650	294 958
Cash and cash equivalents	246 438	206 550	246 196	206 550
<b>Total assets</b>	<b>5 880 019</b>	<b>5 328 872</b>	<b>5 861 336</b>	<b>5 311 084</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital	322 403	322 403	322 403	322 403
Share premium	82 196	82 196	82 196	82 196
Other reserves	1 460	1 200	1 460	1 200
Retained income	255 532	220 735	236 762	203 372
Shareholders' interests	661 591	626 534	642 821	609 171
<b>Liabilities</b>				
Welfare and charitable funds	14 981	11 600	14 981	11 600
Accounts payable	56 382	18 183	55 991	17 884
South African Revenue Service payable	76	705	544	579
Provision for leave pay	8 517	7 408	8 517	7 408
Deposits from customers	5 092 593	4 633 900	5 092 593	4 633 900
Sukuk	45 879	30 542	45 889	30 542
<b>Total liabilities</b>	<b>5 218 428</b>	<b>4 702 338</b>	<b>5 218 515</b>	<b>4 701 913</b>
<b>Total equity and liabilities</b>	<b>5 880 019</b>	<b>5 328 872</b>	<b>5 861 336</b>	<b>5 311 084</b>



## STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP		COMPANY	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Income earned from advances	441 567	387 165	441 567	387 165
Income earned from equity finance	46 615	38 719	46 615	38 719
<b>Gross income earned</b>	<b>488 182</b>	<b>425 884</b>	<b>488 182</b>	<b>425 884</b>
Income paid to depositors	(236 412)	(208 883)	(236 412)	(208 883)
Income paid to sukuk holders/trust	(3 568)	(625)	(3 829)	(726)
<b>Net income before impairment for credit losses</b>	<b>248 202</b>	<b>216 376</b>	<b>247 941</b>	<b>216 275</b>
Impairment for credit losses	(3 991)	(4 969)	(3 991)	(4 969)
<b>Net income after impairment for credit losses</b>	<b>244 211</b>	<b>211 407</b>	<b>243 950</b>	<b>211 306</b>
Net non-Islamic income	-	-	-	-
Fee and commission income	44 353	34 419	44 585	34 639
Other operating income	4 719	4 653	12 976	12 984
<b>Net income from operations</b>	<b>293 283</b>	<b>250 479</b>	<b>301 511</b>	<b>258 929</b>
Operating expenditure	(219 141)	(192 280)	(222 974)	(196 033)
Finance costs	-	-	(9 808)	(10 026)
<b>Profit before taxation</b>	<b>74 142</b>	<b>58 199</b>	<b>68 729</b>	<b>52 870</b>
Taxation	(23 225)	(17 003)	(19 219)	(12 931)
<b>Profit after tax for the year attributable to equity holders</b>	<b>50 917</b>	<b>41 196</b>	<b>49 510</b>	<b>39 939</b>
<b>Other comprehensive income items subsequently reclassified to profit and loss</b>				
Fair value gains net of tax	260	-	260	-
<b>Total comprehensive income for the year, net of tax, attributable to equity holders</b>	<b>51 177</b>	<b>41 196</b>	<b>49 770</b>	<b>39 939</b>
Weighted average number of shares in issue ('000)	32 240	32 240		
Basic and diluted earnings per share (cents)	157,9	127,8		

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Share premium	Other reserves	Retained income	Shareholders' interest
	R'000	R'000	R'000	R'000	R'000
<b>Group</b>					
<b>2017</b>					
Balance at beginning of year	322 403	82 196	1 200	220 735	626 534
Profit after tax	-	-	-	50 917	50 917
Dividends declared	-	-	-	(16 120)	(16 120)
Other comprehensive income	-	-	260	-	260
<b>Balance at end of year</b>	<b>322 403</b>	<b>82 196</b>	<b>1 460</b>	<b>255 532</b>	<b>661 591</b>
<b>2016</b>					
Balance at beginning of year	322 403	82 196	1 200	195 659	601 458
Profit after tax	-	-	-	41 196	41 196
Dividends declared	-	-	-	(16 120)	(16 120)
Other comprehensive income	-	-	-	-	-
<b>Balance at end of year</b>	<b>322 403</b>	<b>82 196</b>	<b>1 200</b>	<b>220 735</b>	<b>626 534</b>
<b>Company</b>					
<b>2017</b>					
Balance at beginning of year	322 403	82 196	1 200	203 372	609 171
Profit after tax	-	-	-	49 510	49 510
Dividends declared	-	-	-	(16 120)	(16 120)
Other comprehensive income	-	-	260	-	260
<b>Balance at end of year</b>	<b>322 403</b>	<b>82 196</b>	<b>1 460</b>	<b>236 762</b>	<b>642 821</b>
<b>2016</b>					
Balance at beginning of year	322 403	82 196	1 200	179 553	585 352
Profit after tax	-	-	-	39 939	39 939
Dividends declared	-	-	-	(16 120)	(16 120)
Other comprehensive income	-	-	-	-	-
<b>Balance at end of year</b>	<b>322 403</b>	<b>82 196</b>	<b>1 200</b>	<b>203 372</b>	<b>609 171</b>

## STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP		COMPANY	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
<b>Cash flow from operating activities</b>				
Cash generated from operations	86 612	69 605	76 286	59 367
Changes in working capital	13 673	(26 620)	14 187	(26 813)
Taxation paid	(25 982)	(24 793)	(24 106)	(23 152)
Dividends paid	(15 992)	(16 028)	(15 992)	(16 028)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>58 311</b>	<b>2 164</b>	<b>50 375</b>	<b>(6 626)</b>
<b>Cash flow from investing activities</b>				
Purchase of property and equipment	(11 766)	(16 846)	(5 936)	(16 803)
Purchase of investment property	-	(129)	-	-
Purchase of intangible assets	(10 401)	(8 044)	(10 401)	(8 044)
Purchase of investment securities	(33)	(100)	(33)	(100)
Proceeds from disposal of property and equipment	201	2 154	201	2 154
Dividend income	1 368	1 422	10 368	10 422
(Increase) in investment in and amount due by subsidiary	-	-	(7 136)	(382)
<b>Net cash utilised in investing activities</b>	<b>(20 631)</b>	<b>(21 543)</b>	<b>(12 937)</b>	<b>(12 753)</b>
<b>Cash flow from financing activities</b>				
Net increase/(decrease) for the year	37 680	(19 379)	37 438	(19 379)
Net foreign exchange difference on cash on hand	2 208	(1 033)	2 208	(1 033)
Cash and cash equivalents at beginning of year	206 550	226 962	206 550	226 962
<b>Cash and cash equivalents at end of year</b>	<b>246 438</b>	<b>206 550</b>	<b>246 196</b>	<b>206 550</b>

FOR THE YEAR ENDED 31 DECEMBER 2017

1. ADVANCES AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
<b>1.1 Sectoral analysis</b>				
<b>Advances to customers</b>				
Property (Musharaka and Murabaha)	3 539 597	3 130 381	3 539 597	3 130 381
Instalment sale	650 105	604 261	650 105	604 261
Trade	442 289	362 947	442 289	362 947
Other	1 886	3 126	1 886	3 126
<b>Gross advances to customers</b>	<b>4 633 877</b>	<b>4 100 715</b>	<b>4 633 877</b>	<b>4 100 715</b>
Provision for impairment of doubtful advances	(30 769)	(26 687)	(30 769)	(26 687)
<b>Net advances to customers after provisions</b>	<b>4 603 108</b>	<b>4 074 028</b>	<b>4 603 108</b>	<b>4 074 028</b>
<b>Advances to banks</b>				
Equity finance	449 266	531 805	449 266	531 805
<b>Net advances</b>	<b>5 052 374</b>	<b>4 605 833</b>	<b>5 052 374</b>	<b>4 605 833</b>
Other receivables	58 444	40 102	58 293	39 953
	<b>5 110 818</b>	<b>4 645 935</b>	<b>5 110 667</b>	<b>4 645 786</b>

Included under property are Musharaka advances amounting to R3,528 million (2016: R3,122 million). Included in other receivables is R36,4 million (2016: Rnil) receivable for the agreed sale of foreign currency to take place in January 2018.

1.2 Maturity analysis

**Advances to customers**

Within 1 month	195 158	194 932	195 158	194 932
From 1 month to 3 months	289 291	243 470	289 291	243 470
From 3 months to 1 year	723 860	503 660	723 860	503 660
From 1 year to 5 years	1 721 911	1 627 618	1 721 911	1 627 618
More than 5 years	1 703 657	1 531 035	1 703 657	1 531 035
	<b>4 633 877</b>	<b>4 100 715</b>	<b>4 633 877</b>	<b>4 100 715</b>

**Equity finance**

Within 1 month	172 401	202 748	172 401	202 748
From 1 month to 3 months	85 118	226 760	85 118	226 760
From 3 months to 1 year	191 747	102 297	191 747	102 297
	<b>449 266</b>	<b>531 805</b>	<b>449 266</b>	<b>531 805</b>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP		COMPANY	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
<b>1.2.1 Specific impairments</b>	<b>10 005</b>	<b>5 953</b>	<b>10 005</b>	<b>5 953</b>
Balance at beginning of year	5 953	6 910	5 953	6 910
Charge to profit for the year	4 333	1 325	4 333	1 325
Bad debts written-off	(281)	(2 282)	(281)	(2 282)
<b>1.2.2 Portfolio impairment</b>	<b>20 764</b>	<b>20 734</b>	<b>20 764</b>	<b>20 734</b>
Balance at beginning of year	20 734	19 165	20 734	19 165
Charge to profit for the year	30	3 842	30	3 842
Bad debts written-off	-	(2 273)	-	(2 273)
	<b>30 769</b>	<b>26 687</b>	<b>30 769</b>	<b>26 687</b>
<b>1.2.3 Impairment for credit losses</b>				
Specific impairments	4 333	1 325	4 333	1 325
Portfolio impairments	30	3 842	30	3 842
Bad debts recovered	(372)	(198)	(372)	(198)
	<b>3 991</b>	<b>4 969</b>	<b>3 991</b>	<b>4 969</b>

There was an increase of specific impairments of R4,3 million for the year which was a result of impairments of R5,9 million being raised and a further R1,6 million being released. During 2016, there was an increase in specific impairments of R1,3 million for the year which was a result of impairments of R3,0 million being raised and a further R1,7 million released.

**2. WELFARE AND CHARITABLE FUNDS**

Gross income from non-Islamic activities during the year	19 438	19 727	19 438	19 727
Normal tax thereon	(2 194)	(4 156)	(2 194)	(4 156)
Net income from non-Islamic activities during the year	17 244	15 571	17 244	15 571
Donations and advances	(13 863)	(11 882)	(13 863)	(11 882)
Balance at beginning of year	11 600	7 911	11 600	7 911
<b>Balance at end of year</b>	<b>14 981</b>	<b>11 600</b>	<b>14 981</b>	<b>11 600</b>

**3. DEPOSITS FROM CUSTOMERS**

	GROUP		COMPANY	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Maturity analysis				
Within 1 month	2 115 416	1 924 080	2 115 416	1 924 080
From 1 month to 3 months	834 919	812 486	834 919	812 486
From 3 months to 1 year	2 083 328	1 849 864	2 083 328	1 849 864
Greater than 1 year	2 973	2 282	2 973	2 282
More than 5 years	55 957	45 188	55 957	45 188
	<b>5 092 593</b>	<b>4 633 900</b>	<b>5 092 593</b>	<b>4 633 900</b>

The bank's deposit products include participation investment accounts, monthly investment plans, hajj saving schemes, regular income provider accounts, current accounts, guarantee deposit accounts, tax-free saving accounts and corporate saver accounts, as well as a premium investment product.

Amounts held in the more than 5-year category relate to funds held as an investment risk reserve for the benefit of the total depositor pool.

**4. SUKUK**

Sukuk capital	45 500	30 300	45 500	30 300
Sukuk profit payable	379	242	389	242
	<b>45 879</b>	<b>30 542</b>	<b>45 889</b>	<b>30 542</b>

The Sukuk investment product was launched in October 2016 with an initial investment of R30,3 million, being the first tranche in a R200 million issuance to take place in due course. The Sukuk investment product qualifies as a tier II capital instrument in terms of Basel III with a 10-year maturing period. The Albaraka Sukuk Trust was formed with the sole purpose of administering the issuance and management of the Sukuk investment product to the Sukuk certificate holders. Profits are paid monthly and the R379 000 (2016: R242 000) profit payable balance represents the December profit accrual which was paid in January 2018 (2016: January 2017).

**5. EARNINGS PER SHARE**

	GROUP		COMPANY	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
Basic and diluted earnings per share are calculated on after tax income attributable to ordinary shareholders and a weighted average number of 32 240 260 (2016: 32 240 260) ordinary shares in issue during the year (cents)	157,9	127,8		
Headline earnings per share are calculated on headline earnings and a weighted number of 32 240 260 (2016: 32 240 260) ordinary shares in issue during the year (cents)	161,7	127,1		
Headline earnings per share are derived from:				
Profit for the year	50 917	41 196		
Profit arising on disposal of property and equipment	142	(382)		
Write-off of property, equipment and intangible assets	1 071	168		
	<b>52 130</b>	<b>40 982</b>		

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