

Corporate Governance Report

Introduction

The board of directors acknowledges that good corporate governance is central to Al Baraka Bank's business operations and fully endorses the principles of corporate governance as set out in King II. The board furthermore recognises that conducting the business of the bank with integrity and in accordance with good corporate governance practices is essential to securing the trust of its stakeholders, which is, in turn, fundamental to the success and sustainability of the business.

King II currently forms Al Baraka Bank's governance framework, with the directors acknowledging that the spirit of good corporate governance should always prevail over issues of form. Having assessed its governance framework against the relevant statutes, regulations and other directives which also serve to shape the conduct and business operations of the bank, the board is satisfied that Al Baraka Bank has, in all material respects, complied with the requirements, as well as the spirit of King II, with regard to the year under review.

On 01 September 2009, the King Committee released the third report on Corporate Governance in South Africa, which is referred to as King III. Numerous changes which have been brought about in terms of international governance trends, combined with the new Companies Act, No. 71 of 2008, necessitated revisions to the existing King II framework. Whilst disclosure in terms of King III is only required with effect from 01 March 2010, Al Baraka Bank has established a project team whose mandate it is to ensure that the principles and recommendations of King III are proactively addressed, in preparation for its implementation.

Having considered King III and the revised corporate governance landscape arising from its 'apply or explain' philosophy, the board is satisfied that Al Baraka Bank's governance structures are capable of meeting the revised reporting requirements.

Corporate governance ethos

Whilst the board of directors remains the focal point of the bank's corporate governance system, it is assisted by the directors' affairs committee in ensuring that good governance practices become part of the bank's everyday business and way of life.

Through the application of its corporate governance ethos, the bank seeks to maximise stakeholder value, whilst simultaneously ensuring

that it complies with applicable legislation, regulations and codes, which form part of the bank's legal and regulatory framework.

During the course of 2009, the board conducted an assessment of the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy, as implemented by the bank throughout the year under review. Based on its assessment, the board is satisfied that the bank has successfully achieved the corporate governance objectives determined by the board.

Board of directors

Structure

The board of directors is responsible for the performance and affairs of the bank, and bears ultimate responsibility for the governance of the bank. Al Baraka Bank has a unitary board structure, with the functions and roles of the chairman and the chief executive being separate and distinct.

The board comprises twelve directors, five of whom are independent non-executive directors and four of whom are non-executive. The remaining three directors include the chief executive, the deputy chief executive and the financial director, all of whom are executive directors.

The independence of directors is a function of the definitions set out in King II, whilst the definition of a director acting independently in terms of the Corporate Laws Amendment Act also serves to inform the classification of non-executive directors with specific reference to the audit committee. Whilst complying with these requirements, the board is of the opinion that directors should also be independent in thought and deed. The board is satisfied that through the presence of its independent non-executive directors, sufficient independent thought is brought to board discussions and, ultimately, board decisions. By virtue of their different sets of skills, knowledge and expertise, the directors are able to discuss board matters vigorously and constructively, leading to informed decisions.

The board is satisfied, having taken cognisance of the nature of the business environment within which the bank operates, together with the size and corresponding complexity of its business operations, that it has an appropriate ratio of non-executive directors to executive directors. No new appointments were made to the board of directors for the year under review.

Corporate Governance Report

(continued)

Skills and attributes of directors

Al Baraka Bank's board consists of directors who possess a diverse range of skills, experience and knowledge, which are required to meet the challenges confronting the business operations of the bank. Through their mix of skills, the directors are able to fulfill their obligations in a responsible and competent manner.

The directors' affairs committee, in accordance with its charter, regularly reviews the composition, skills, experience and other qualities required of directors to ensure that the composition of the board remains appropriate to meet the requirements of the bank.

Strategy

As the body ultimately responsible for the overall performance of the bank, the board is responsible for formulating the bank's strategy. The board also monitors management in its implementation of board-approved plans and strategies.

Delegation of authority

The board has established a governance structure comprising various board committees, through which the board is able to retain effective control of the business. The board committees serve an important function in that they provide the board with a specific focus in terms of specialised areas of the bank's business.

The board has delegated prescribed powers of authority to the chief executive, the deputy chief executive and the financial director to effectively and efficiently manage the affairs of the bank on a day-to-day basis. However, it is important to note that such delegation of authority from the board to the respective board committees and management of the bank, does not mitigate or dissipate the discharge by the board collectively and the directors individually of their duties and responsibilities.

Delegated authorities are regularly reviewed by the board in order to ensure that they remain relevant and applicable to the business requirements of the bank.

Director training and induction

Director training and development remains a key area of focus, with director training being scheduled throughout the course of the year. Directors are encouraged to attend external training programmes, such as the Banking Board Leadership Programme, which is offered through the Gordon Institute of Business Science (GIBS), as well as other courses

which are relevant to the business of the bank. Such programmes include risk management and ongoing corporate governance education.

The legal environment in which the bank operates is subject to numerous changes and it is imperative that the directors are aware of such legislative developments which could have an impact upon the operations of the bank. One such development has been the formulation of the new Companies Act, which is expected to become effective during the course of 2010.

Training with regard to new legislation and regulations is provided internally or through appropriate external service providers. Through this training, directors are kept informed on a regular basis of the evolving legal environment within which the bank operates.

Upon appointment, directors are presented with a governance portfolio which contains information relevant to the business of the bank. The portfolio comprises information such as policies, key legislation, mandates, governance structures and financial reports.

Newly appointed directors undergo a process of induction, whereby they are introduced to management and staff. Through such a process of induction, new directors are effectively introduced to Al Baraka Bank's operations. This, in turn, equips directors with an understanding of the business of the bank.

The prior approval of the Registrar of Banks is required for the appointment of directors to the board.

Board evaluation and effectiveness

A number of evaluations are conducted in order to determine the effectiveness of the board and its committees. The process of evaluation is facilitated by the directors' affairs committee, which then makes appropriate recommendations to the board. The performance of the chairman and chief executive is also assessed on an annual basis.

The board is satisfied that the board committees have successfully fulfilled their mandates.

Board meetings and procedures

The board meets regularly throughout the course of the year, in accordance with the board meeting schedule, which is prepared in consultation with the directors. The board is required, in terms of its articles of association, to hold four meetings a year. However, additional board meetings may be convened as and when circumstances dictate the need for an additional meeting. Through its regular board meetings, the board is able to retain full

and effective control over the bank and its operations, whilst also monitoring management's implementation of approved strategy and business plans. All directors are expected to attend board meetings, as well as meetings of the relevant board committees on which they serve. Should directors not be in a position to attend the meetings in person, the bank provides tele-conferencing facilities, thereby enabling those directors to fully participate in board discussions and decisions.

Directors' interests in contracts are disclosed at every meeting of the board and board committees. In order to ensure director participation at board and board committee meetings, board documentation is distributed to directors well in advance of meetings. During the course of the year under review, the board took a decision, in support of its environmental awareness, to receive electronic board documentation as opposed to the more traditional paper-based approach.

The tabling of late submissions at board meetings constitutes the exception rather than the rule, although directors are nevertheless at liberty to place additional matters onto the agenda for discussion purposes. The board agenda is appropriately structured, thereby allowing the directors sufficient time to focus on key issues for discussion at meetings.

Directors are entitled to seek independent legal advice in fulfillment

of their duties, at the bank's expense, should they require such advice. Directors also have unrestricted access to all the bank's information, records, documents and property. They may also meet separately with management, in the absence of executive directors. Such meetings with management are co-ordinated through the office of the chief executive.

The board has formulated a charter, the key features of which are set out below:

- Board composition;
- Determination of the bank's objectives and plans to implement the objectives;
- Formulation of the bank's strategic plan;
- Determination of the board committees;
- Implementation of effective risk management processes;
- Monitoring of the performance of the chief executive, the executive directors and the executive management team;
- Approval of budgets;
- Compliance with laws and regulations;
- Reputational risk;
- Stakeholder communication; and
- Director selection, orientation and evaluation.

Director attendance at the five board meetings held in 2009 is as follows:

<i>Member</i>	<i>January</i>	<i>March</i>	<i>June</i>	<i>October</i>	<i>December</i>
AA Yousif (Chairman)	✓	✓	✓	✓	✓
SA Randeree (Vice chairman)	✓	✓	✓	✓	✓
F Kassim	✓	✓	✓	✓	✓
A Lambat	✓	✓	✓	✓	A
Adv. AB Mahomed SC	✓	✓	✓	✓	✓
MS Paruk	✓	✓	✓	✓	✓
YM Paruk	✓	✓	✓	✓	✓
OA Suleiman	✓	✓	✓	✓	✓
M Youssef Baker	✓	✓	✓	✓	✓
SAE Chohan (Executive director and chief executive)	✓	✓	✓	✓	✓
MG McLean (Executive director and deputy chief executive)	✓	✓	✓	A	✓
MJD Courtiade (Executive director and financial director)	✓	✓	✓	✓	✓

✓ = Attendance A = Apology

Corporate Governance Report

(continued)

Board committees

In terms of its board charter, the board has established a number of committees to assist it in discharging its duties and responsibilities. Board committees currently consist of the risk and capital management committee, the audit committee, the board credit committee, the directors' affairs committee and the remuneration committee.

The board committees possess formal terms of reference, which are reviewed and approved annually by the board. Such terms of reference were recently amended to proactively align them with the requirements of King III.

As part of the board's commitment to the principles of disclosure and transparency, the chairmen of the respective board committees are required to provide feedback to the board regarding the key issues discussed at recent board committee meetings.

The minutes of previous board committee meetings are also included in subsequent board documentation, thereby ensuring that the board is kept well informed of developments at board committee level.

Board committees may seek independent professional advice on any matter which it is required to consider, where this may be deemed necessary.

Notwithstanding the existence of the board committees, the board acknowledges that it is ultimately accountable and responsible for the performance and affairs of the bank, as required in terms of King II.

The composition of the board committees was reviewed during the first quarter of 2009, in order to ensure their continued optimal performance. The company secretary is secretary to the board committees, with the exception of the remuneration committee.

In addition to the board committees which have been established, a number of management committees have also been established with the purpose of assisting the board and board committees in carrying out their duties and responsibilities.

These committees include the executive management committee (EXCO), the executive credit committee (ECC), the management risk

committee, the FICA executive committee, the IT steering committee and the assets and liabilities committee (ALCO).

Risk and capital management committee

The role of the risk and capital management committee is to assist the board and management to successfully manage, communicate, oversee and take responsibility for the governance of risks across the bank.

The risk and capital management committee fulfills its role by, inter-alia:

- Assisting the board in its evaluation and monitoring of the adequacy and efficiency of the risk management policies, procedures, practices, controls and plans applied within the bank in the day-to-day management of its business;
- Developing a risk mitigation strategy to ensure that the bank manages the risk in an optimal manner and to assist the board in ensuring that a formal risk assessment is undertaken at least annually;
- Identifying and regularly monitoring 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;
- Determining the levels of risk tolerance/appetites at least once a year, setting limits for the risk appetites and monitoring that such risks taken are within the tolerance and appetite levels;
- Having in place frameworks and methodologies to anticipate unpredictable risks;
- Ensuring that management considers and implements appropriate risk responses identified and noted in a risk register;
- Approving new products and ensuring that adequate measures have been taken to address all related risks before making recommendations to the board for the approval of such products; and
- Ensuring that the risk management process is in line with the group's risk management strategy.

The risk and capital management committee met on four occasions during 2009.

In addition to the members, the meetings of the risk and capital management committee were also attended by the chief executive, the compliance officer and the internal audit manager.

Membership and attendance: risk and capital management committee meetings in 2009

Member	January	June	October	December
YM Paruk (Chairman)****	✓	✓	✓	✓
MS Paruk	✓	✓	✓	✓
Adv. AB Mahomed SC	✓	✓	✓	✓
SAE Chohan (Executive director and chief executive)*	✓	-	-	-
MG McLean (Executive director and deputy chief executive)*	✓	-	-	-
MJD Courtiade (Executive director and financial director)	✓	✓	✓	✓
A Lambat (Chairman)***	-	✓	✓	✓
M Youssef Baker**	-	✓	✓	✓
OA Suleiman**	-	✓	✓	✓
Y Nakhooda (Risk manager)**	-	✓	✓	✓

✓ = Attendance - = Not a member * = Resigned 30/01/2009 ** = Appointed 30/01/2009 *** = Appointed chairman 30/01/2009 **** = Resigned as chairman 30/01/2009

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

Audit committee

The role of the audit committee is to assist the board of directors in discharging its responsibilities by:

- Ensuring the identification and management of financial risks, integrity of reporting practices, financial controls and integrated reporting, such as sustainability reporting as per statutory requirements;
- Safeguarding the company's assets;
- Maintaining adequate accounting records; and
- Developing and maintaining effective systems of internal control.

The responsibilities of the audit committee fall into four main areas, including:

- Reviewing the internal control structure, inclusive of financial

control, accounting systems and reporting;

- Reviewing and overseeing the internal audit functions;
- Liaising with external auditors; and
- Monitoring the bank's compliance with legal and statutory requirements.

During 2009, the audit committee met on five occasions. Apart from the members of the audit committee, meetings were also attended by the executive directors, representatives from the internal and external auditors, the compliance officer and the risk manager.

The committee also met with the auditors independently of management in 2009.

Corporate Governance Report

(continued)

Membership and attendance: audit committee meetings in 2009

Member	January	February	June	October	December
MS Paruk (Chairman)	✓	✓	✓	✓	✓
Adv. AB Mahomed SC	✓	✓	✓	✓	✓
A Lambat	✓	✓	✓	✓	✓

✓ = Attendance

The audit committee reviewed the following matters in 2009:

- The integrity of the financial statements, together with a recommendation for approval thereof;
- Various reports from internal audit, including the internal audit summary report and the control issues log;
- Progress on the 2008/2009 audit functional plan;
- Shariah audit reports;
- Compliance reports which address the various legal and regulatory provisions;
- IT progress reports;
- Taxation matters;
- Corporate governance issues, including the process of corporate governance, as set out in the Regulations relating to the Banks Act and King III;
- Determination of the audit fees;
- Status of policies and procedures;
- Enhancements to the provisioning methodology according to IAS 39 - Financial Instruments: Recognition and Measurement;
- External audit reports, including the report to the board and the National Credit Regulator in compliance with Regulation 68 of

the Regulations to the National Credit Act; and

- Review of the audit committee charter.

The audit committee conducted a review of, and is satisfied with the expertise, experience and resources of the bank's finance function.

Auditor independence

At the annual general meeting held in July 2009, Ernst and Young Inc. was re-appointed by the shareholders as auditors of Al Baraka Bank until the next annual general meeting. The audit committee is satisfied that Ernst and Young Inc. has acted independently of Al Baraka Bank at all times.

The audit committee is satisfied that it discharged its responsibilities in accordance with its charter.



MS Paruk

Chairman: audit committee

Credit committee

The role of the credit committee is to manage the bank's overall credit risk strategy and to approve advances in terms of the board-approved delegation policies of authority.

The board credit committee gives effect to its role by:

- Reviewing the bank's credit risk management policy for adequacy and ensuring that such policy is approved by the board;
- Assessing the adequacy of Al Baraka Bank's provisioning policy when deemed necessary, including the review of provisions where credit losses are incurred;
- Approving the write-offs of debtor accounts within its delegated authority;

- Monitoring the credit recovery processes and the progress made on all matters handed over for legal action, including facilities that are long-outstanding and that require additional attention and supervision;
- Reviewing and recommending to the board any change in the strategy, marketing and business plans in respect of any financing activities of the bank; and
- Performing stress testing scenarios in respect of credit risks on a six-monthly basis.

The credit committee met five times during 2009, with management representatives from the credit and legal functions being in attendance at the meetings.

Membership and attendance: credit committee meetings in 2009

Member	January	March	June	October	December
Adv. AB Mahomed SC (Chairman)*	✓	-	-	-	-
MS Paruk	✓	✓	✓	✓	✓
SA Randeree	✓	✓	✓	✓	✓
OA Suleiman (Chairman)***	✓	✓	✓	✓	✓
SAE Chohan	✓	✓	✓	✓	✓
MG McLean	✓	✓	✓	A	✓
MJD Courtiade*	✓	-	-	-	-
EM Hassan (General manager: credit)**	-	✓	✓	✓	✓

✓ = Attendance

A = Apology

- = Not a member

* = Resigned 30/01/2009

** = Appointed 30/01/2009

*** = Appointed Chairman 30/01/2009

The credit committee is satisfied that it has discharged its responsibilities in accordance with its charter.



OA Suleiman

Chairman: credit committee

Directors' affairs committee

The role of the directors' affairs committee is to, inter-alia:

- Identify, evaluate and recommend nominees to the board of directors and other entities in terms of an agreed process;
- Monitor the adequacy and effectiveness of the bank's corporate governance structures;
- Review the structure, size and composition of the board, taking into account the requirements of board sub-committees and making recommendations to the board regarding any required changes;
- 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.
- Regularly review the composition, skills, experience and other qualities required for the effective functioning of the board;
- Consider methodologies for the annual assessment of the performance of the board and sub-committees of the board

and the contribution of the individual directors by making recommendations to the board; and

- Provide a forum for non-executive directors to meet without executive directors and management, if required to do so by the board.

The directors' affairs committee met on two occasions during the year under review.

In terms of the Banks Act, the membership of the directors' affairs committee consists solely of non-executive directors. The chief executive attends the meetings by invitation.

Corporate Governance Report (continued)

Membership and attendance: directors' affairs committee meetings in 2009

Member	June	October
SA Randeree (Chairman)	✓	✓
F Kassim*	✓	✓
M Youssef Baker**	✓	✓

✓ = Attendance * = Appointed 30/01/2009 ** = Appointed 12/03/2009

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



SA Randeree
Chairman: directors' affairs committee

Remuneration committee

The remuneration committee is:

- Tasked with ensuring that a comprehensive employment equity policy exists that addresses, amongst other things, discrimination, disputes, affirmative action and disciplinary action;
- Responsible for implementing the bank's employment equity policy which addresses, amongst other things, disputes, affirmative action requirements and disciplinary action;
- Responsible for making 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; and

- Required to ensure that the correct calibre of senior executive management is attracted, retained, motivated and rewarded.

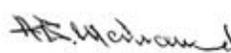
The remuneration committee met on three occasions during the course of 2009.

Membership and attendance: remuneration committee meetings in 2009

Member	March	June	December
Adv. AB Mahomed SC (Chairman)*	✓	✓	✓
SA Randeree	✓	✓	✓
OA Suleiman	✓	✓	✓
SAE Chohan	✓	✓	✓
YM Paruk*	✓	✓	✓

✓ = Attendance * = Appointed 30/01/2009

The remuneration committee is satisfied that it has discharged its responsibilities in accordance with its charter.



Adv. AB Mahomed SC
Chairman: remuneration committee

Board property committee

The board property committee is a specialist advisory committee to the board. With the successful relocation of the bank to its new

head office at Kingsmead Office Park, Durban, the board property committee successfully completed its mandate and has been disbanded. The board property committee met once during 2009.

Membership and attendance: board property committee meetings in 2009

Member	June
MS Paruk (Chairman)	✓
YM Paruk	✓
A Lambat	✓
SAE Chohan	✓

✓ = Attendance

Company secretary

The company secretary provides the board and individual directors with guidance as to how their responsibilities should be properly discharged in the best interests of Al Baraka Bank.

The company secretary also provides a source of guidance and advice to the board, and within the bank, on matters of ethics and good governance. All directors have access to the advice and services of the company secretary, who also facilitates induction and training for directors.

Going concern status

The board has considered and assessed the going concern basis, as set out in the financial statements at the year-end. The board is of the opinion that the business will continue operating as a going concern in the coming year. The board also considers the going concern status of the business at the interim reporting stage.

Organisational integrity

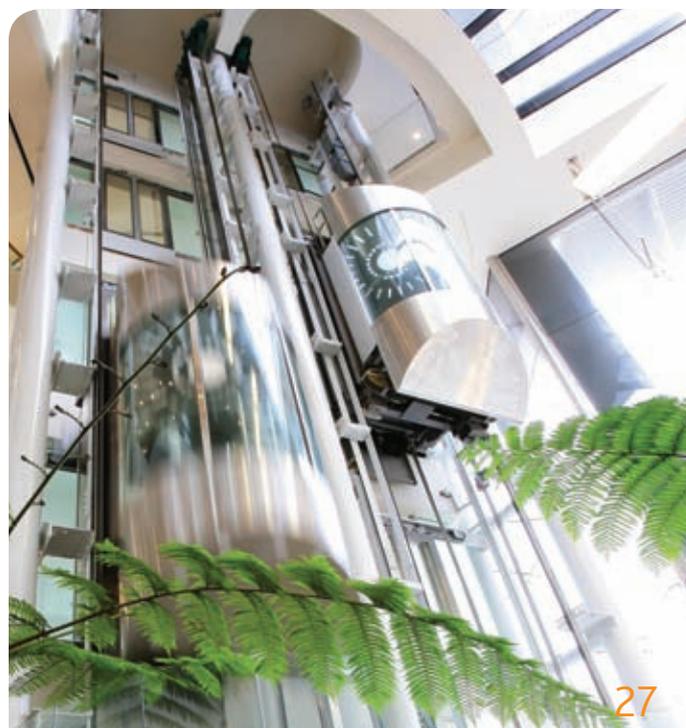
Arising from the board's commitment to conducting business with integrity, a code of conduct has been developed which benchmarks the conduct required of management and staff in their interaction with stakeholders. The code of conduct is reviewed from time to time, in order to take into account the changing business environment within which the bank operates.

Management supports the code by conducting training in terms of the different values and statements recorded in the code. Al Baraka Bank has introduced an independently operated anti-fraud helpline which is available 24-hours-a-day, 365-days-a-year.

Having considered the code in relation to the conduct of staff throughout the year under review, the board is satisfied that the standards of the code are, in all material respects, being upheld.

Financial Sector Charter

With the prevailing uncertainty regarding the future of the Financial Sector Charter, Al Baraka Bank will be looking to undertake a gap analysis with regard to the Codes of Good Practice, as formulated by the Department of Trade and Industry. Developments pertaining to the Financial Sector Charter are also closely monitored through the Banking Association of South Africa.



Sustainability Report

Al Baraka Bank acknowledges the important role which it must play as a corporate citizen in South Africa.

The board has, from an early stage, recognised the significance of reporting on matters impacting upon society and the environment and has, therefore, sought to create a successful business which operates in a responsible and sustainable manner.

Stakeholder relationships

Al Baraka Bank has identified its stakeholders as being inclusive of shareholders, clients, employees, suppliers, communities which the bank serves and various regulators.

Disclosure of information to stakeholders is based upon principles of reliability, relevance, timeliness, transparency and materiality. Mindful of the importance of its stakeholders to the success of the business, the bank has made stakeholder engagement a key objective.

Shareholders are encouraged to attend the bank's annual general meeting, where the chairmen of the respective board committees are present to address queries which shareholders may have. The board supports the view that informed shareholders not only have an appreciation for the business, but are capable of making informed decisions, which will enhance the bank.

Customers provide the bank with a business purpose, with client service excellence remaining a key priority. Al Baraka Bank utilises a number of different methods for communicating with its clients, including the print media, radio advertising and the bank's own website and SMS communication. By virtue of their significance to the business, new clients are contacted on a random basis to ascertain their Al Baraka Bank experiences.

The feedback received has been very encouraging and through this process, client service issues are highlighted and addressed in an efficient manner.

Al Baraka Bank also has a dedicated Customer Service Centre share-call telephone number, for the benefit of clients and this number appears on the bank's promotional materials.

Employees are regarded as being central to the success of the business. As such, Al Baraka Bank strives to ensure that it attracts, develops and retains the best people. In order to assist employees reach their true potential, various training programmes are identified by means of individual development plans.

Set out in the table below is a summary of the skills spend and training hours for the current and preceding two years.

<i>Skills development and training</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Skills spend	R769 097	R657 244	R472 549
Total training hours	9 078	9 427	4 129



Occupational health and safety

The health and safety function of the bank is overseen by a fully-established occupational health and safety committee wherein all divisions of the organisation, including the branches, enjoy representation. The committee meets every quarter.

All the necessary appointments, including health and safety representatives, first-aiders, fire marshals, amongst others, have been made and arrangements finalised for the relevant staff to be trained, where necessary. All other requirements of health and safety legislation, inter-alia, fire equipment and first-aid boxes are being met and monitored on an ongoing basis.

The bank's new head office building at Kingsmead Office Park, Durban, presents new challenges, such as glass surroundings, tiled floors, access control, security, surveillance and boom gates, which require heightened consideration by the bank. In this regard the bank has established a safety and security committee, headed by an executive, which meets monthly. All elements of security are dealt with by the committee, covering both head office and the branches. A facilities manager was also employed by the bank and tasked with the responsibility of focusing on health and safety issues concerning the bank. A small number of minor occupational health and safety incidents were reported to the occupational health and safety committee and were dealt with professionally by staff.

The services of an external occupational health and safety expert have also been utilised by the bank to conduct a detailed review of compliance with relevant legislation. The review findings, together with the status of an action plan, are tabled at each monthly EXCO meeting. The expert has also advised the bank on emergency procedures.

Al Baraka Bank is committed to working together with the occupational health and safety committee, management and staff to continuously strive to ensure that we present a clean, safe and healthy environment to all in this business environment.

Environment

Al Baraka Bank, as a banking institution, does not impact the environment to the same extent as do certain other categories of companies. However, the board recognises that it is necessary for all organisations to conserve the environment if we are to have a better life for future generations. Al Baraka Bank impacts the environment in both a direct and indirect manner. The direct manner refers to

the way in which the bank manages its branches and offices, whilst the indirect impact has an influence on the nature of the financial decisions made by the bank.

Employees are actively encouraged to reduce the environmental impact of the bank's operations. In this regard, employees are urged to reduce paper consumption and in support of this objective, board documentation is distributed electronically to the directors. Similarly, documentation for internal meetings is also distributed electronically.

Being mindful of the fact that Al Baraka Bank, as a good corporate citizen, has a responsibility to consider the environmental impact of its business operations, an independent environmental consultant was engaged. The purpose of this engagement was to inform management of the key challenges and opportunities which lie ahead in the bank's endeavours to minimise its environmental impact.

As part of its commitment to conserving resources and energy, whilst simultaneously creating a more sustainable working environment and planet, the bank has established a 'green committee' whose mandate is to review all issues concerning the environment.

Transformation

Al Baraka Bank has been fully-committed to the aims and objectives of the Financial Sector Charter, which is a transformation charter as contemplated in the Broad-Based Black Economic Empowerment legislation. The board has always been supportive of the need for transformation and has sought to not only meet, but exceed, targets where possible.

With the current impasse surrounding the future of the Financial Sector Charter, Al Baraka Bank will be conducting an analysis of the Codes of Good Practice, as formulated by the Department of Trade and Industry.

The last report submitted to the Financial Sector Charter Council was confirmed as an 'A' rating, with this verification remaining valid until 31 August 2010.

Corporate social investment

Al Baraka Bank, in line with its vision of providing a financial system which contributes to the development of the community, has in place a comprehensive corporate social investment programme which promotes the social development of needy individuals and

Sustainability Report

(continued)

organisations by actively addressing socio-economic challenges in five key sectors, namely:

- Education;
- Health;
- Security;
- Poverty alleviation; and
- Humanitarianism.

The bank has played a particularly prominent role in educational and related matters during the 2009 financial year. The bank contributed R16,5 million to various charities and charitable organisations, which included some R2,9 million of equipment and

infrastructure as a means of improving a number of historically disadvantaged schools, so ensuring learners are given every opportunity to reach their true potential.

Al Baraka Bank also partnered with the South African Police Services during the 2009 financial year, as well as two previous years, in an effort to actively play a role in initiatives which are designed to assist in the eradication of crime. One such initiative by the bank during the review period was the sponsorship of Garmin navigation systems to the value of R100 000.



Compliance Report

Al Baraka Bank has a compliance function responsible for the monitoring of regulatory and reputational risk.

Regulatory risk is regarded as the risk that the bank could be exposed to penalties and sanctions for not complying with statutory, regulatory and supervisory requirements imposed by the South African Reserve Bank and any other regulatory bodies by which the bank is regulated.

Reputational risk is the risk that the bank could be exposed to negative publicity due to the contravention of laws applicable to the bank.

The primary role of the compliance function is to assist management in complying not only with the letter, but with the spirit of the law and supervisory requirements.

The compliance officer operates under an authority delegated by the board, in terms of a board-approved Compliance Charter, and has unrestricted access to the chief executive, the audit committee and chairman of the board.

Regular updates or reports are submitted to the audit committee, board and South African Reserve Bank in terms of compliance matters. There were no material issues of non-compliance to be reported during the year under review.

Significant regulatory developments which impacted on Al Baraka Bank during the review period included:

- **Money laundering control and combating of terrorism legislation**
The bank spent considerable time, effort and resources devising, implementing and updating appropriate policies and procedures and amendments to system processes, together with appropriate staff training to ensure compliance with applicable legislation. Although the final deadline date for client identification and verification expired on 30 September 2006, a focus on compliance is still being maintained both by the dedicated branch staff and the head office-based FICA project team.

The bank continued using Compliance Watch software to assist with name matching on terrorist watch lists. This, with the detection and reporting of suspicious money laundering transactions, will be greatly enhanced by way of the bank's new Equation Islamic Core Banking Solution, to be implemented in 2010.

- **Financial Advisory and Intermediary Services Act (FAIS)**

The bank's application to increase the categories of services offered, in terms of its existing licence, to its clients was approved. A number of activities to ensure compliance with the Act were implemented and include:

- The identification and appointment of additional key individuals and representatives, the establishment of training requirements and updating of the required register;
- The creation of the required monitoring and reporting capacity;
- A review of processes, communication, promotional and other materials to align with the requirements of the Act and codes of consumer protection;
- The up-skilling of staff to meet the qualification requirements of FAIS; and
- The updating of the bank's FAIS policy and procedure document.

- **Code of Banking Practice**

The bank continued with its implementation of the Code of Banking Practice at all branches. Clients were informed of their rights in terms of the code through posters in the banking halls and handbills which were distributed at the bank. Ongoing monitoring of compliance with the code is undertaken and use of 'mystery shoppers' was made for this purpose.

- **The National Credit Act**

Extensive system changes, staff training, the adaptation of documentation and legal agreements were undertaken so as to meet the requirements of the National Credit Act. Possible regulatory risks have been identified and are monitored to ensure total compliance by the bank. A full review by external consultants is planned for 2010.

- **Home Loan and Mortgage Disclosure Act**

This legislation was introduced to level the playing field with regard to the obtaining of residential property finance by formerly disenfranchised members of our society. In this regard, extensive system changes have been necessitated by the Act.

Shariah Report

In the name of Allah, the All Compassionate, the Most Merciful

To the shareholders of Albaraka Bank Limited

We have reviewed the principles and the contracts relating to the transactions and applications 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 Shariah rules and principles and with the rulings set out by the Accounting and Auditing Organisation for Islamic Financial Institutions.

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

We conducted our review, which included examining, 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:

- Financial statements;
- Murabaha financing;
- Musharaka financing;
- Equity Murabaha transactions;
- Profit distribution;
- Disposal of impermissible income; and
- Foreign exchange transactions.



.....
Dr Abdus Sattar Abu Ghudda
Chairman
05 February 2010



.....
Sheikh Mahomed Shoaib Omar
Member



.....
Mufti Shafique Ahmed Jakhura
Member

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.

1. In our opinion, the contracts, transactions and dealings entered into by Al Baraka Bank during the year under review are generally in compliance with Shariah rules and principles, subject to certain concerns, namely the following:
 - a) In certain cases, as a consequence of inadequate filing, relevant documents relating to Shariah compliance were not available at the time of the audit.
 - b) An amount of R7 233 472, representing impermissible income, remains to be distributed.
 - c) Certain miscellaneous transactions requiring rectification were drawn to the attention of management.
2. Zakah of the bank was calculated as 31 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.

Shariah Supervisory Board

Shariah Supervisory Board of Al Baraka Bank

The Shariah Supervisory Board is an independent body comprising specialist jurists in Islamic commercial jurisprudence and is entrusted with directing, reviewing and supervising the activities of Al Baraka Bank, thus ensuring that the bank complies with Shariah.

The board sets out to ensure that all Shariah matters regarding Al Baraka Bank are dealt with in a professional manner and in strict accordance with the standards set by AAOIFI.

The Shariah Supervisory Board's rulings and resolutions are binding on the bank.

It is the responsibility of the Shariah Supervisory Board to carry out regular audits of transactions and, based on its reviews of the bank's business operations, to form an independent opinion on the compliance of Shariah principles.

Al Baraka Bank's Shariah Supervisory Board comprises:

Dr Abdus Sattar Abu Ghudda (Syrian) –

Dr Ghudda is the senior Shariah consultant for Al Baraka Banking Group. He is also a director of the Department of Financial Instruments at Al Baraka Investment and Development Company and is a member of the Shariah Supervisory Boards of several Islamic financial institutions. He is an active member of the OIC Islamic Fiqh Academy and AAOIFI. He was responsible for research and compilation of the Encyclopaedia of Fiqh of the Kuwait Ministry of Awqaf and Islamic Affairs and is a former member of the Ministry's Fatwa Board. He has taught fiqh and Islamic studies in Kuwait and Saudi Arabia. Dr Ghudda obtained BA degrees in Islamic Shariah and in Law from Damascus University. He went on to earn his MA degree in Shariah and hadith and his PhD in Shariah and comparative fiqh from Al-Azhar University in Cairo.

Sheikh Mahomed Shoaib Omar –

Sheikh Omar serves as member of the Shariah Supervisory Board of Al Baraka Bank. He completed his LLB at the University of KwaZulu-Natal in 1979 and studied Arabic and Islamic Law under Mufti Taqi Usmani in 1982. He was also a student of Qadhi Mujahidul Islam, the founder of the Islamic Fiqh Academy of India. He was granted the right of appearance in the High and Constitutional Courts of South Africa in 1995. He currently practices as an attorney and has written a number of books and numerous articles on Islamic law and commerce.

Mufti Shafique Ahmed Jakhura –

Mufti Jakhura serves in the Fatwa Department preparing and issuing Islamic juristic rulings at the Darul Ihsan Research Centre in Durban. He has established and heads the Centre for Islamic Economics and Finance SA - a non-profit organisation dedicated to increasing awareness and providing education in the fields of Islamic economics and finance.

In 2002 he completed, with distinction, the Aalimiyah Course at Madrasah Taleemuddeen, in Durban and in 2005 completed a three-year specialisation course in Islamic Jurisprudence (Fiqh and Fatwa) from Jamia Darul Uloom Karachi, under the guidance of Mufti Taqi Usmani, which culminated in the submission of a thesis on the topic of Shirkat and Mudharabat. He also holds an Advanced Diploma in Islamic banking and finance from the Centre for Islamic Economics, based in Karachi.

Shariah supervision of the Futuregrowth Albaraka Equity Fund

The partnered Futuregrowth Albaraka Equity Fund, which is a general equity fund, is managed in strict accordance with Shariah. The fund affords opportunities for Muslim investors seeking a socially and morally responsible investment on the Johannesburg Securities Exchange.

The fund's appointment of an independent Shariah Supervisory Board indicates the absolute commitment to both Shariah and Islamic economic principles. The Shariah Supervisory Board comprises Mufti Justice (retired) Muhammad Taqi Usmani (Chairman), Dr Muhammad Imran Ashraf Usmani, Sheikh Mahomed Shoaib Omar and Mufti Zubair Bayat, and meets at least once annually.

The board has also appointed a local Shariah sub-committee, comprising Sheikh Mahomed Shoaib Omar and Mufti Zubair Bayat, who examine the Shariah compliance status of prospective companies and the core activities and financials of every company in the fund universe so as to ensure that each and every company complies with Shariah principles as set by AAOIFI.

All investments made by the fund ensure ongoing compliance with Shariah board directives. The local sub-committee meets at least four times a year in order to ensure the execution of its mandate and to report to the Shariah Supervisory Board annually.

Directors' Responsibility Statement & Secretary's Declaration

Directors' responsibility statement

The company's directors are responsible for the preparation and fair presentation of the group annual financial statements and separate parent annual financial statements, comprising the directors' report, the statement of financial position as at 31 December 2009 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 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.



Adnan Ahmed Yousif
Chairman

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 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 parent annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of group annual financial statements and annual financial statements

The group annual financial statements and annual financial statements were approved by the board of directors on 19 March 2010 and signed on their behalf by:



Shabir Chohan
Chief Executive

Secretary's declaration

The secretary certifies that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act, No. 61 of 1973 as amended, and that all such returns are true, correct and up-to-date.



Colin Breeds
Company Secretary
Durban
19 March 2010