

# Corporate Governance Report

## Introduction

Al Baraka Bank is committed to sound corporate governance and the implementation of ethical and moral behaviour in all its business operations and practices. The board of directors endorses the Code of Corporate Practices and Conduct as recorded in the King Report on Corporate Governance for South Africa 2009 (King III), which came into effect on 01 March 2010.

The board of directors has adopted a balanced approach with regard to its implementation of the principles set out in King III, acknowledging that good governance represents a journey, as opposed to a destination.

During the year under review, Al Baraka Bank, through the oversight of the management committee, which was established to assess the requirements of King III and to ensure that the bank's governance framework was appropriately adjusted to address the new governance requirements, made significant progress in its application of King III.

Some of these developments included the following:

- The board and board committee charters were harmonised with the requirements of King III, where appropriate; and
- An extensive review of King III was conducted and, as a result thereof, a comprehensive plan of action was developed to address issues where appropriate gaps had been highlighted.

Some of the key areas of King III receiving consideration include the governance of risk and information technology. In this regard, the board of directors acknowledges that it is ultimately responsible for the governance of risk and information technology. An extensive process of developing a combined risk assurance model has commenced, whilst management will be conducting a review of the integrated reporting guidelines recently released for public comment.

Through its support of King III, the board of directors has confirmed the importance of conducting the business of Al Baraka Bank with integrity and is committed to the effective implementation of good corporate governance practices which are fundamental to the success and sustainability of the business.

## Corporate governance ethos, ethical leadership and corporate citizenship

The board of directors, assisted by the directors' affairs committee, is responsible for corporate governance. The board of directors also ensures that management, through the development of a code of conduct, formulates a culture of ethical conduct and establishes values in terms of which Al Baraka Bank seeks to conduct its business.

Compliance with all applicable legislation, regulations and codes which form part of the bank's legal and regulatory framework is a fundamental component of the bank's culture.

## Board of directors

### Structure

The board of directors bears ultimate responsibility for the governance of the bank. The board acknowledges that its fundamental responsibility is the successful performance of the bank and, in seeking to give effect to this objective, the board recognises that the legitimate interests and expectations of all its stakeholders must be taken into account.

Al Baraka Bank has a unitary board structure, with the roles and functions of the chairman and chief executive being separate and distinct. The board, as at 31 December 2010, comprised twelve directors, five of whom are independent non-executive directors and four of whom are non-executive directors. The remaining three executive directors consisted of the chief executive, the deputy chief executive and the financial director.

The independence of directors is determined in accordance with the definitions set out in King III. The requirements of the new Companies Act are also taken into consideration in relation to the members of the audit committee, all of whom need to be classified as independent non-executive directors. The independence of the board is a function conducted by the directors' affairs committee. The board subscribes to the view that an independent director should be independent in character and judgement.

The board has also assessed the independence of the independent non-executive directors who have served more than nine years on the board, namely Adv. AB Mahomed SC and Mr M Youssef Baker. The board is satisfied that their independence of character and judgement remains unaffected. The chairman is non-executive, but not independent as defined. However, the board is of the view that Mr Youssef's vast experience and knowledge of the banking industry and of Al Baraka Banking Group as a whole, makes it appropriate for him to hold the position of chairman. As such, a lead independent director has not been appointed.

The presence of the independent non-executive directors provides independent thought and objectivity to board discussions, thereby ensuring that board decisions are adequately shaped from an independent perspective. Given their different set of skills, knowledge and expertise, the directors are able to discuss board matters constructively and vigorously, acting in the best interests of the bank and its stakeholders at all times.

Based on the nature of the business environment within which the bank currently operates, taken in conjunction with the magnitude and complexity of its business operations, the board is satisfied that it possesses an appropriate ratio of non-executive directors to executive directors.

The board has appointed Mr McLean, who held the position of deputy chief executive until 2 March 2011, as a non-executive director on 3 March 2011.

### Skills and attributes of directors

Al Baraka Bank's board of directors possess a wide range of skills, experience and knowledge, key to enabling the directors to successfully meet the challenges presented by the operating environment. Through this balanced mix of skills and attributes, the directors are able to fulfill their fiduciary obligations in a responsible and competent manner.

In order to ensure that the composition of the board remains appropriate to the ever-changing operating environment, the directors' affairs committee regularly reviews the composition, skills, experience and demographic profile of board members.

### 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 retains effective control of the business through a governance structure which consists of various board committees. These board committees provide the board with a specialised focus in terms of key areas of the bank's operations.

The board of directors, pursuant to a process of review, delegates appropriate powers of authority to the executive directors in order to manage the business affairs of the bank on a day-to-day basis. The bank has defined its own levels of materiality, reserving specific powers to itself. By delegating authority, the board of directors does not in any way whatsoever, abdicate its duties and responsibilities. Delegated authorities are reviewed on a regular basis by the bank, having due regard for the directors' statutory and fiduciary responsibilities, whilst simultaneously considering strategic and operational effectiveness and efficiencies.

### Director training and induction

The financial services environment is subject to numerous and ongoing changes, making it essential that the directors are aware of such developments which could potentially have an impact upon the operations of the bank. Director training and development in these key areas therefore remain an ongoing area of focus.

Directors are encouraged to attend external training programmes, such as the Banking Board Leadership Programme, offered through the Gordon Institute of Business Science, as well as other training programmes relevant to the operations of the bank. Key training programmes in this regard include risk management and corporate governance. During the course of the year, such training was conducted outside of scheduled board meetings. Where appropriate, external service providers are retained to conduct specialised training, such as that provided to the directors concerning the new Companies Act requirements.

Newly appointed directors receive a governance portfolio which

includes detailed information relevant to the business of Al Baraka Bank, such as mandates, policies, financial reports and information, governance structures and key pieces of legislation. In addition, newly appointed directors are introduced to management and members of staff on a one-on-one basis. Through this process of induction, directors are able to acquire a thorough understanding of the business.

In terms of South African banking laws and regulations, all directors of a bank must be approved by the South African Reserve Bank.

### Board evaluation

During the year under review, the board and board committees conducted a series of evaluations with the objective of determining their effectiveness, as well as that of the respective members. The performance of the chairman and chief executive is also assessed on an annual basis.

The evaluation process is facilitated by the directors' affairs committee, which, upon the completion of the evaluation, makes recommendations to the board. No material issues were noted pertaining to the board or board committees' performance evaluation.

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

### Board meetings and procedures

In terms of its articles of association, the board is required to hold four meetings a year. However, when circumstances dictate the need, additional ad hoc meetings may be held. As part of the board planning process, an annual schedule of board and board committee meetings is prepared in consultation with the directors, all of whom are expected to attend board meetings and meetings of the relevant committees on which they serve.

Where directors are not in a position to attend the meetings in person, Al Baraka Bank provides tele-conferencing facilities, thereby enabling the directors to participate in board discussions and decisions.

The bank has a policy in place determining how directors' interests in contracts are to be addressed. Such disclosure takes place at every board and board committee meeting, with directors being required to recuse themselves from the discussion of those matters in which they have an interest. This policy has been formulated in accordance with the provisions of the new Companies Act.

Non-executive directors have unrestricted access to all the bank's information, records, documents and property. Where it is deemed

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necessary, directors are entitled to seek independent professional advice in order to fulfill their duties and obligations as directors. In such instances, the independent professional advice is at the cost of the bank. Directors may also meet separately with management, without any executive directors in attendance. Such meetings are co-ordinated through the office of the chief executive.

The board of directors has developed a formal board charter, with some of its key features being as follows:

- Board composition;
- Determination of the bank's objectives and plans to implement these objectives;
- Formulation of the bank's strategic plan;
- Determination of the board committees;
- Implementation of effective risk management processes;
- Monitoring 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.

## Membership and attendance: board meetings in 2010

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

✓ = Attendance    A = Apology

## Board committees

The board of directors recognises that board committees constitute an important element of the governance process. The board is assisted by the audit committee, the risk and capital management committee, the board credit committee, the directors' affairs committee and the remuneration committee.

All of the board committees possess formal terms of reference, which are subject to annual review by the board of directors. The terms of reference of the board committees now read consistently with the requirements of King III. In giving effect to their terms of reference, board committees may also seek independent professional advice, where this is deemed necessary.

The establishment of board committees does not, however, serve to exonerate the board from complying with its legal responsibilities. With the exception of the remuneration committee, the company secretary is secretary to the board committees.

In seeking to give effect to the business of the bank, several management committees have also been established. These management committees play a meaningful role in assisting the board and board committees in fulfilling their respective duties and obligations. The management committees which have been established include the executive management committee (EXCO), the executive credit committee (ECC), the management risk committee, the assets and liabilities committee (ALCO), the

FICA executive committee and the IT steering committee. Having conducted a review of the board committees, the board of directors is satisfied that the board committees have successfully fulfilled their mandates.

#### **Audit committee**

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

- Ensuring the identification and management of financial risks, the integrity of reporting practices, financial controls and integrated reporting, such as sustainability reporting, per statutory requirements;
- Reviewing a documented assessment of key assumptions regarding the going concern premise; and
- Developing and maintaining effective systems of internal control.

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

- Reviewing the internal control structure, including financial control, accounting systems and reporting;
- Reviewing and overseeing the internal audit function;
- Liaising with external auditors; and
- Monitoring the bank's compliance with legal and statutory requirements.

During the year under review, the audit committee, which consists solely of independent non-executive directors, 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 audit committee also met with the auditors independently of management in November 2010.

The members of the audit committee were approved at the bank's annual general meeting in June 2010.

The audit committee has a policy regarding non-audit fees, the purpose of which is to prevent the independence of the auditors from being compromised during the annual audit.

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

The audit committee reviewed the following matters in 2010:

- The integrity of the financial statements together with a recommendation for approval;
- Various reports from internal audit, including the internal audit summary report and the control issues log, as well as the internal audit report from Al Baraka Banking Group;
- Progress in terms of the 2009/10 audit functional plan;
- Shariah audit reports;
- Compliance reports addressing various legal and regulatory provisions;
- IT progress reports;
- Taxation matters;
- Issues of corporate governance, including the process of corporate governance, as set out in the Regulations relating to the Bank's Act and King III;
- Determination of audit fees;
- Status of policies and procedures;
- Various special assignments conducted by internal audit;
- 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
- A review of the audit committee charter.

#### **Auditor independence**

At the annual general meeting held in June 2010, Ernst & 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 with the independence of the external auditors.

### **Membership and attendance: audit committee meetings in 2010**

<b>Member</b>	<b>February</b>	<b>March</b>	<b>June</b>	<b>September</b>	<b>November</b>
MS Paruk (Chairman)	✓	✓	✓	✓	✓
A Lambat	✓	✓	✓	✓	✓
Adv. AB Mahomed SC	✓	✓	✓	✓	✓

✓ = Attendance

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



MS Paruk

Chairman: audit committee

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## Risk and capital management committee

The role of the risk and capital management committee is to assist the board and management in successfully managing, communicating, overseeing and taking responsibility for the governance of risks across the bank.

The risk and capital management committee's terms of reference record various responsibilities, which include:

- Assisting the board in its evaluation and monitoring of the adequacy and efficiency of 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 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 accuracy of its reporting is maintained at a high level;
- Determining the levels of risk tolerance/appetites at least once a year, set 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 that these risks are subsequently recorded 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.

During the course of 2010, the risk and capital management committee met on five occasions. 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 manager: internal audit.

## Membership and attendance: risk and capital management committee meetings in 2010

Member	March	May	June	September	November
A Lambat (Chairman)	✓	A	✓	✓	A
MJD Courtiade	A	✓	✓	✓	✓
Adv. AB Mahomed SC	✓	A	✓	✓	A
MS Paruk	✓	✓	✓	✓	✓
YM Paruk	✓	A	✓	✓	✓
OA Suleiman	✓	✓	✓	✓	✓
M Youssef Baker	A	✓	✓	✓	✓
Y Nakhooda (Manager: Risk)	✓	✓	✓	✓	✓

✓ = Attendance      A = Apology

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



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A Lambat

Chairman: risk and capital management committee

**Credit committee**

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

The board credit committee gives effect to its role by:

- Reviewing and recommending to the board any change in the strategy, marketing and business plans in respect of any financing activities of the bank;
- 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;

- Monitoring the credit recovery processes and the progress made on all matters handed over for legal action, including facilities which are long-outstanding and which require additional attention and supervision;
- Approving the write-offs of debtor accounts within its delegated authority; and
- Performing stress testing scenarios in respect of credit risks on a six-monthly basis.

The credit committee met four times during the year under review, with the financial director and management representatives from the credit and legal functions being in attendance at the meetings.

**Membership and attendance: credit committee meetings in 2010**

<i>Member</i>	<i>March</i>	<i>June</i>	<i>September</i>	<i>November</i>
OA Suleiman (Chairman)	✓	✓	✓	✓
SAE Chohan	✓	✓	✓	✓
MG McLean	✓	✓	✓	✓
MS Paruk	✓	✓	✓	✓
SA Randeree	✓	✓	✓	✓
EM Hassan (General manager: credit)	A	✓	✓	✓

✓ = Attendance      A = Apology

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



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**OA Suleiman**

Chairman: credit committee

**Directors' affairs committee**

The role of the directors' affairs committee is to ensure the efficient functioning of the board in the interests of good corporate governance. The directors' affairs committee gives effect to its role by:

- Identifying, evaluating and recommending nominees to the board of directors and other entities, in terms of an agreed process;
- Monitoring the adequacy and effectiveness of the bank's corporate governance structures;
- Reviewing the structure, size and composition of the board, taking into account the requirements of board committees and making recommendations to the board regarding any required changes;

- Regularly reviewing the composition, skills, experience and other qualities required for the effective functioning of the board;
- Considering methodologies for the annual assessment of the performance of the board and board committees, together with the contribution of individual directors by making recommendations to the board;
- Maintaining a board directorship continuity programme, which includes:
  - Succession plans for the chairman and board sub-committees; and
  - Succession plans for executive directors, executive management and other senior management; and

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- Providing a forum for non-executive directors to meet without executive directors and management.

The directors' affairs committee met on two occasions during

the course of 2010. In terms of the Banks Act, membership of the directors' affairs committee comprises solely non-executive directors, with the chief executive attending meetings by invitation.

## Membership and attendance: directors' affairs committee meetings in 2010

Member	March	September
SA Randeree (Chairman)	✓	✓
F Kassim	A	✓
M Youssef Baker	✓	✓

✓ = Attendance    A = Apology

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 purpose of the remuneration committee is to ensure that the correct balance exists between the interests of employees and those of shareholders, such that the bank attracts and retains the expertise required to achieve its strategy.

The remuneration committee is:

- Responsible for making recommendations to the board on matters such as succession planning at both senior management and executive management level, general staff policy, performances, remuneration, benefits, bonuses and incentive schemes;
- Required to ensure that the correct calibre of senior executive management is attracted, retained, motivated and rewarded;

- Tasked with ensuring that a comprehensive employment equity policy exists and that this 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; and
- Responsible for assisting in creating an environment where employees who demonstrate initiative, enterprise, ability, effort and loyalty are able to develop rewarding careers within the bank.

The remuneration committee met twice during the course of 2010.

### Membership and attendance: remuneration committee meetings in 2010

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

✓ = Attendance

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



Adv. AB Mahomed SC

Chairman: remuneration committee

### Company secretary

A key function of the company secretary's portfolio is to provide the board, as well as the individual directors, with guidance as to how their responsibilities should be 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 pertaining to ethics and good governance.

The directors have access to the services of the company secretary, who is also responsible for facilitating the induction of 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 directors confirm that they are satisfied that Al Baraka Bank has adequate resources to continue in business for the foreseeable future.

The assumptions underlying the going concern status of the bank are considered at the time of the approval of the annual financial statements and again at the interim reporting stage.

### Ethics

The board of directors assumes responsibility for developing an ethical corporate culture within the bank, based on ethical

leadership. The bank's code of conduct is reviewed on a regular basis in order to ensure that it correctly reflects the bank's values.

The code of conduct has been formulated in such a manner that it promotes core ethical values, which serve to facilitate effective decision-making across the organisation.

Through regular training, the bank's ethical standards, as set out in the code of conduct, are integrated into the bank's operations.

Al Baraka Bank has an independently-operated anti-fraud help-line in terms of which ethical and related incidents may be reported.

### Financial Sector Code

Towards the end of 2010, a draft Financial Sector Code was released for public comment.

This draft represents the culmination of much hard work and seeks to transform the Financial Sector Charter, which represented a voluntary reporting framework, into a legally-binding sector code.

Al Baraka Bank fully supports these developments and looks forward to the introduction of the Financial Sector Code.