Corporate Governance

Introduction

The board of directors fully endorses the principles of corporate governance as recorded in the King Report on Corporate Governance (King II), whose purpose is to promote the highest level of corporate governance in South Africa.

In recognising the importance of good corporate governance to the organisation, the board continuously strives to improve upon the bank’s existing governance structures, wherever possible. It goes without saying that the board places a very high premium on good corporate governance, which constitutes an integral component of Albaraka Bank’s business operations. Furthermore, the board acknowledges the need to conduct the business of the bank with integrity and in accordance with good corporate governance practices.

Through its implementation of the principles contained in the King Report, the board of directors acknowledges that issues of substance, including the spirit of good corporate governance, should always prevail over issues of form, and this is particularly relevant in view of what has transpired in the international financial markets during the course of 2008. Through its dedication to the implementation of best governance practices, the board has remained fully focused on the critical areas of risk and compliance which impact on the business of the bank.

Having assessed the principles of corporate governance as set out in King II against the statutes, regulations and other directives which shape the conduct and business operations of the bank, the board is of the opinion that the 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.

Corporate governance ethos

As the board of directors is the focal point of the bank’s corporate governance system, it is ultimately accountable and responsible for ensuring that good governance is applied consistently throughout the bank. In giving effect to its corporate governance obligations, the board conducts an annual review and assessment of the bank’s compliance with King II. In this regard, the board is assisted by the directors’ affairs committee, which is responsible for reviewing governance matters on an ongoing basis throughout the year.

In terms of regulation 39 (18) (a) and (b) of the Regulations relating to banks, the board is required to, at least once a year, assess and document as to whether the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy implemented by the bank successfully achieve the objectives specified by the board. Having conducted this review for 2008, the board is satisfied that the bank has successfully achieved the objectives determined by the board.

Board of directors

Structure

Albaraka Bank has a unitary board structure, which is ultimately responsible for the performance and affairs of the bank. The functions and roles of the chairman and the chief executive are separate and distinct. The board comprises 12 directors, five of whom are independent non-executive directors. Of the remaining seven directors, four are non-executive, with three being executive directors, namely the chief executive, the deputy chief executive and the financial director.

The independent status of the directors is a function of the definitions recorded in King II, read in conjunction with other statutory and regulatory requirements. During the year under review, the board took cognisance of the definition of independence...
contained in the Corporate Laws Amendment Act, and as a result thereof, brought about changes to the composition of the bank’s audit committee. The board also strongly believes that directors should be independent in both thought and deed.

Through the presence of the independent directors, the board is satisfied that strong independent thought is brought to board discussions, which is ultimately reflected in the quality and nature of board decisions. Non-executive directors perform key roles in that they monitor executive management’s implementation of board-approved plans and strategies. Having due regard for the nature of the business environment within which the bank operates, together with the complexity and size of its business operations, the board is satisfied that it comprises an appropriate ratio of non-executive directors to executive directors.

During the year under review, no new appointments were made to the board of directors.

Skills and experience of directors
The board comprises directors who possess a diverse range of skills, experience and knowledge. This mix of attributes ensures that directors are well-suited to meeting the challenges confronting the business of the bank and that they are in a position to fulfil their obligations in a competent manner.

During the course of 2008, a review of the board and board committee composition was undertaken and resulted in the board committees being restructured during the early part of 2009, in order to give effect to the objectives of the bank.

Strategy
The board of directors, as the body ultimately responsible for the overall performance of the bank, is responsible for formulating the strategic direction of the bank. As part of this process, the board determines appropriate financial and corporate governance objectives, which are then monitored throughout the course of the year.

During October 2008, the board conducted a strategy meeting during which the strategic priorities of the bank were reviewed. This session was also attended by representatives of executive management.

Delegation of powers
The board of directors bears ultimate responsibility for the bank’s performance and, to assist the board in this regard, it has established a sound governance structure consisting of various board committees. Through this governance structure, the board is able to retain effective control. The board committees, which are relevant to and complement the bank’s business operations, provide the board with a focus on specialised areas of the bank’s operations.

The board has also delegated prescribed powers of authority to the chief executive, together with the deputy chief executive and the financial director, who are responsible for the day-to-day management of the business of the bank. Notwithstanding the delegation of authority from the board to the respective board committees and management of the bank, this does not in any way whatsoever mitigate or dissipate the discharge by the board collectively and the directors individually of their duties and responsibilities.

Director-training and induction
The board is committed to ongoing director-training and development and encourages directors to attend training programmes, such as the Banking Board Leadership Programme, offered through the Gordon Institute of Business Science, as well as other courses which are relevant to the business of the bank. In this regard, a number of directors attended various risk management programmes offered through the Institute of Directors.
The board acknowledges that the legislative framework within which the bank operates is subject to rapid change. In this regard, it receives regular updates regarding the legal environment, addressing, inter-alia, the Corporate Laws Amendment Act and the Companies Bill. In addition, once King III is released, it will also be subject to analysis. Where appropriate, recognised experts in their fields are retained to provide the board with specialist training, thereby ensuring that the directors remain at the very forefront of changing legislative requirements.

Newly appointed directors are presented with a governance portfolio, consisting of information relevant to the business of the bank and the environment within which it operates. The portfolio also includes information, such as financial reports, policies, significant legislation and information pertaining to Basel II.

As part of the induction process, the bank’s directors are also introduced to key management and staff. The objective of such meetings is to ensure that non-executive directors are able to obtain a comprehensive overview of the bank’s operations, thereby enabling them to make informed decisions at board meetings.

**Board evaluation and effectiveness**

The directors’ affairs committee considers different methods of evaluation and thereafter makes recommendations to the board as to the appropriateness and relevance thereof. The objectives of such evaluations are to ultimately improve the effectiveness and performance of the board.

During the year under review, the board conducted a number of evaluations, including an evaluation of the board as a whole and the committees of the board. More recently, the performance of the chairman was assessed, with the board given feedback on the outcome of the evaluation.

**Board meetings**

Although the board is required to hold four meetings a year, the board may, at its discretion, convene additional meetings should it deem it necessary to do so. No special meetings were held during the course of 2008. Through the process of holding regular board meetings, the board is in a position to retain full and effective control over the bank and its operations.

Board meeting dates are scheduled in consultation with the directors, especially given that a number of directors are based overseas. Unless there are exceptional circumstances preventing them from doing so, all directors are expected to attend each board meeting and meetings of committees on which they serve.

In order to cater for those directors who cannot, for some reason, attend meetings in person, the bank provides a teleconference facility, such that these directors may fully participate in board discussions and be an integral part of the collective decision-making process.

Board meetings and agendas are structured in such a manner so as to promote director participation, thereby ensuring effective decision-making. Board documentation is generally distributed to directors two weeks in advance of meetings. The purpose of this early distribution is to provide the directors with sufficient time to adequately prepare for meetings and to limit, insofar as this is possible, the tabling of late submissions at board meetings. Directors are, nevertheless, at liberty to place additional matters onto the agenda for discussion.

During June 2008, the annual general meeting was held at the offices of the bank. There was a strong presence of directors, with the chairmen of each of the respective board committees also being present in order to address queries raised by shareholders.
Director attendance at the four board meetings held during 2008 is as follows:

**Membership and attendance: board meetings in 2008**

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

✓ = Attendance  
A = Apology

**Board committees**

The board of directors has established the risk and capital management committee, the audit committee, the credit committee, the directors’ affairs committee and the remuneration committee to assist the board in discharging its responsibilities. The board has also established the board property committee, a specialist committee, whose function is to oversee the construction of the bank’s new head office at Kingsmead Office Park, Durban. Once the relocation to the new corporate premises has been completed, the board property committee will have completed its mandate.

All the board committees possess formal terms of reference, which are reviewed annually by the board. In support of the principle that there should be full disclosure and transparency between the board committees and the board of directors, the respective chairmen of the board committees are required to report verbally on the matters considered at recent board committee meetings. In addition to this, the minutes of the previous board committees are submitted to the board, thereby further enhancing the governance process.

All board committees of the bank are chaired by non-executive directors. Where it is deemed necessary, board committees are at liberty to seek independent professional advice on issues relevant to the mandate of that particular board committee. Although the board committees are designed to assist the board and the directors in discharging their responsibilities, it is fully acknowledged by the directors that the board cannot shield behind the operations of such committees.

Several management committees have also been established and assist the board and board committees in giving effect to
their respective mandates. The more significant of these management committees include the executive management committee, the executive credit committee, the management risk committee, the FICA executive committee, the IT steering committee and the assets and liabilities committee.

Having reviewed the operations and workings of the board committees during the course of the year, the board is of the opinion that the board committees have discharged their responsibilities in accordance with their mandates.

**Risk and capital management committee**

During the course of 2008, the risk committee expanded its terms of reference to include issues of capital management, in accordance with the requirements of the Banks Act.

The expanded role of the risk and capital management committee is to assist the board and management in identifying, managing and overseeing the risks across the bank by:

- Developing a risk mitigation strategy to ensure that the bank manages its risks in an optimal manner;
- Establishing an independent risk management function;
- Establishing and implementing a process of internal controls and reviews to ensure the integrity of the overall risk and capital management process;
- Establishing and implementing a process that relates capital to the level of risk; and
- 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.

The risk and capital management committee met on three occasions during the course of 2008. In addition to the members, meetings of the risk and capital management committee were also attended by the risk manager and the manager: internal audit, as well as the compliance officer.

**Membership and attendance: risk and capital management committee meetings in 2008**

<table>
<thead>
<tr>
<th>Member</th>
<th>March</th>
<th>June</th>
<th>October</th>
</tr>
</thead>
<tbody>
<tr>
<td>YM Paruk (Chairman)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>MS Paruk</td>
<td>✓</td>
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<tr>
<td>Adv. AB Mahomed SC</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>SAE Chohan (Executive director and chief executive)</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>MG McLean (Executive director and deputy chief executive)</td>
<td>✓</td>
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<tr>
<td>MJD Courtlaude (Executive director and financial director)</td>
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</table>

✓ = Attendance  
✓ = Apology

**Audit committee**

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

- Safeguard the bank’s assets;
- Maintain adequate accounting records; and
- Develop and maintain effective systems of internal control.
Corporate Governance (Continued)

The audit committee’s responsibilities cover four principal issues, being:
- Reviewing internal control structures, including financial controls, accounting systems and reporting;
- Reviewing internal audit’s function;
- Liaising with external auditors; and
- Monitoring the level of the bank’s compliance with its legal and statutory requirements.

During 2008, the audit committee met on five occasions. Over and above the members of the audit committee, meetings were also attended by the executive directors, representatives from the internal and external auditors and the compliance officer, as well as the risk manager.

Membership and attendance: audit committee meetings in 2008

<table>
<thead>
<tr>
<th>Member</th>
<th>February</th>
<th>March</th>
<th>May</th>
<th>June</th>
<th>October</th>
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<tbody>
<tr>
<td>MS Paruk (Chairman)</td>
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<td>Adv. AB Mahomed SC</td>
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<tr>
<td>OA Suleiman*</td>
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<tr>
<td>M Youssef Baker*</td>
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</tbody>
</table>

✓ = Attendance
A = Apology
* = Resigned 07/10/2008
** = Appointed 07/10/2008

Credit committee
The role of the credit committee is to review, measure and manage the bank’s overall credit risk strategy and to approve advances in terms of the appropriately delegated powers of authority. Further functions of the credit committee are to:
- Recommend to the board the credit risk policies and the credit risk framework of the bank;
- Review the adequacy of provisions made for credit losses;
- Monitor large exposures and group-connected partly lending exposures; and
- Monitor the overall credit review processes of the bank, taking into account the quantitative and qualitative assessment of the credit worthiness of debtors.

The credit committee met three times during the course of 2008, with management representatives from the credit and legal functions being in attendance at the meetings.
Membership and attendance: credit committee meetings in 2008

<table>
<thead>
<tr>
<th>Member</th>
<th>March</th>
<th>June</th>
<th>October</th>
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<tbody>
<tr>
<td>Adv. AB Mahomed SC (Chairman)</td>
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<td>OA Suleiman</td>
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<tr>
<td>SAE Chohan (Executive director and chief executive)</td>
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<td>MG McLean (Executive director and deputy chief executive)</td>
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Directors’ affairs committee

The role of the directors’ affairs committee is to, inter-alia:
- Monitor the adequacy and effectiveness of the bank's corporate governance structure;
- Maintain a board directorship continuity programme;
- Regularly review the composition, skills, experience and qualities required for the effective functioning of the board; and
- Consider methodologies for the annual assessment of the performance of the board, board committees and the contribution of the individual directors by making recommendations to the board.

In accordance with the requirements of the Banks Act, the directors’ affairs committee consists solely of non-executive directors. However, the chief executive attends the meetings by invitation.

The directors’ affairs committee met on three occasions during the year under review.

Membership and attendance: directors’ affairs committee meetings in 2008

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<thead>
<tr>
<th>Member</th>
<th>March</th>
<th>October</th>
<th>December</th>
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<tbody>
<tr>
<td>SA Randeree (Chairman)</td>
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<td>Adv. AB Mahomed SC</td>
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Remuneration committee

The overall function of the remuneration committee is to ensure that an appropriate balance exists between the interests of employees and those of shareholders, such that the bank is able to attract and retain the necessary expertise required to achieve the bank’s strategic goals and objectives.

The remuneration committee also ensures that the bank’s employment equity policy remains current and that it is implemented
throughout the organisation. The committee is also responsible for making recommendations to the board on issues of succession planning - both at senior management and executive management levels - remuneration and benefits.

The remuneration committee met on two occasions during the year under review.

### Membership and attendance: remuneration committee meetings in 2008

<table>
<thead>
<tr>
<th>Member</th>
<th>March</th>
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<tr>
<td>A Lambat (Chairman)</td>
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<tr>
<td>SAE Chohan (Executive director and chief executive)</td>
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### Board property committee

The board property committee is a specialist advisory committee to the board, established with the objective of overseeing the construction of the bank’s new corporate head office, located at Kingsmead Office Park, Durban.

The board property committee met twice during the course of 2008.

### Membership and attendance: board property committee meetings in 2008

<table>
<thead>
<tr>
<th>Member</th>
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<th>October</th>
</tr>
</thead>
<tbody>
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<tr>
<td>SA Randeree</td>
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<tr>
<td>SAE Chohan (Executive director and chief executive)</td>
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</tbody>
</table>

✓ = Attendance  
A = Apology

### Company secretary

All directors have access to the service of the company secretary, who is responsible for providing the board collectively, as well as the directors individually, with appropriate guidance on their duties and responsibilities on how they should be discharged in the best interests of the bank.

The company secretary is also required to keep the board informed of best governance practices and to ensure that board procedures are complied with.
Going concern status

The board of directors, having reviewed the going concern basis, as reflected in the financial statements, is of the opinion that the bank will continue operating as a going concern in the coming year. This review process is repeated at the interim reporting stage.

Organisational integrity

In accordance with King II, Albaraka Bank has formulated a code of conduct, which sets the standard of conduct expected of management and staff when engaging with clients, stakeholders and fellow colleagues.

The board of directors and executive management place a high premium on matters pertaining to integrity, regarded as being fundamental to the well-being of the bank. In pursuit of this objective, the bank conducts regular training, whereby the values and principles of the code of conduct are re-enforced with employees. Having due regard for the values reflected in the code and the conduct of staff throughout the year under review, the directors are of the opinion that the standards of the code are, in all material respects, being met.

Financial Sector Charter

Albaraka Bank is committed to the principles of the Financial Sector Charter, which is a framework designed to address the implementation of Black Economic Empowerment across the financial services sector. The bank pleasingly received an “A” rating from the Financial Sector Charter Council in respect of its most recent Black Economic Empowerment Performance Report, the details of which are set out in the sustainability report.
Albaraka Bank acknowledges the importance of disclosing non-financial information in the annual report which is both relevant and appropriate to the business operations of the bank.

Such information addresses the bank’s social, transformation, ethical, safety, health and environmental management policies and practices, which disclosure is in keeping with the recommendations of King II. It is the function of the board to determine what is relevant for disclosure, having due regard for the circumstances of the bank.

**Financial Sector Charter**

The Financial Sector Charter, which is a transformation charter as contemplated in the Broad-Based Black Economic Empowerment legislation, provides the principles upon which Black Economic Empowerment is to be implemented throughout the financial sector. The charter establishes various targets in the areas of human resource development, procurement, enterprise development, access to financial services, empowerment financing, ownership and control and corporate social investment.

For the year under review, Albaraka Bank received the following ratings across the different targets:

<table>
<thead>
<tr>
<th>Charter category</th>
<th>Target points</th>
<th>Albaraka Bank’s score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human resources</td>
<td>20</td>
<td>13</td>
</tr>
<tr>
<td>Procurement and enterprise development</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Access to financial services</td>
<td>02</td>
<td>02</td>
</tr>
<tr>
<td>Empowerment financing</td>
<td>22</td>
<td>17</td>
</tr>
<tr>
<td>Ownership and control</td>
<td>20</td>
<td>25 (incl. bonus points)</td>
</tr>
<tr>
<td>Corporate social investment</td>
<td>03</td>
<td>03</td>
</tr>
<tr>
<td><strong>Total score</strong></td>
<td><strong>82</strong></td>
<td><strong>75</strong></td>
</tr>
</tbody>
</table>

Percentage score: 91.46%
Rating: “A”

**Stakeholder relationships**

Albaraka Bank recognises the need for timely and transparent disclosure on matters of public interest to all its categories of stakeholders, including, but not limited to employees, clients, shareholders, regulators and suppliers. The development of sound working relationships with all its stakeholders is regarded as a key objective of the bank.

Customer service excellence remains an ongoing priority for the bank with significant steps having been taken by management to achieve this objective during the 2008 financial year. The bank is also committed to customer confidentiality at all times. In keeping with the bank’s “zero tolerance” approach to fraud-linked and unethical conduct an externally managed anti-fraud hotline has been established in terms of which staff and clients may confidentially call in and relay details of alleged activities. All matters which are reported are investigated, irrespective of the nature of the matter or the amount in question.

The bank acknowledges that well-informed stakeholders play a significant role in support of the continued growth of the bank. It is for this reason that shareholders are encouraged to attend annual general meetings of the bank, where they are afforded the opportunity to interact with the directors on a personal level. Through this ongoing process, the bank seeks to
enhance its shareholders’ understanding and knowledge of the bank, as well as its operations.

Employees

Albaraka Bank continues to place significant emphasis on empowering staff, providing them with relevant training opportunities aimed at increased efficiencies and improved financial performance at the bank. Management is ever mindful of the fact that the bank’s members of staff play a critical role in helping it achieve its financial objectives and for this reason the bank’s human resources strategy specifically focuses on retaining its best employees.

<table>
<thead>
<tr>
<th>Skills development and training: 2008</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Skills spend 2008</td>
<td>R657 244</td>
</tr>
<tr>
<td>Total training hours</td>
<td>9 427</td>
</tr>
</tbody>
</table>

Health and safety

Since the last report, much time and effort has been invested in occupational health and safety matters. Inspections were conducted at all branches by the respective occupational health and safety representatives in order to detect and eradicate areas of non-compliance.

Fire marshals were elected for each of our branches and the marshals from the Durban area attended off-site training to assist them to perform their duties effectively. Fire drills will be conducted during the new financial year in order to prepare staff for any potential disaster.

A new facilities manager will be appointed, so ensuring greater emphasis and focus on occupational health and safety issues.

During the period under review no employees sustained any injuries nor were any major health hazards reported.

Verification statement by internal audit

Having conducted a limited review of the information set forth in the sustainability report, we are of the opinion that it fairly represents Albaraka Bank’s social, transformation, ethical, safety, health and environmental management policies and practices.
The bank has a compliance function whose primary role is to monitor regulatory and reputational risk.

Regulatory risk is the risk that the bank could be exposed to penalties and sanctions for failing to comply with those 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 overriding role of compliance is, therefore, to assist management in complying not only with the letter, but also with the spirit of the law and any and all supervisory requirements.

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

The compliance officer submits regular updates or reports to the bank’s audit committee, the board and South African Reserve Bank as regards a range of compliance issues. During the 2008 financial year no material issues of non-compliance were reported.

Significant regulatory developments which had an impact on Albaraka Bank during the 2008 financial year included:

- **Anti-money laundering control and combating of terrorism legislation**
  The bank has spent time, effort and resources in an effort to devise, implement and update appropriate policies and procedures, together with amendments to system processes, as well as providing effective staff training in an effort to comply with applicable legislation. Although the final deadline date for client identification and verification expired on 30 September 2006, the bank has continued focusing on compliance at both branch and dedicated FICA Project Team levels.

  The bank has also continued utilising Compliance Watch software as a means of assisting with name matching on terrorist watch lists. However, this - together with the detection and reporting of suspicious money laundering transactions - will be enhanced by the new Equation Islamic core banking solution, to be implemented shortly.

- **Financial Advisory and Intermediary Services Act (FAIS)**
  The bank’s application to increase its categories of services offered to clients, in terms of its existing licence, has been approved. Various activities to ensure compliance with the Act were implemented. These included:
  - The identification and appointment of additional key individuals and representatives, the establishment of training requirements and the updating of the required register;
  - The creation of the required monitoring and reporting capacity;
  - The assurance that the review of processes, communication, promotional and other materials align with the requirements of the Act and with codes of consumer protection;
  - The up-skilling of staff to meet the qualification requirements of FAIS; and
  - The development of the bank’s FAIS policy and procedure document.

- **Code of Banking Practice**
  The bank continued implementing the Code of Banking Practice at all its branches. Clients were informed of their rights in terms of the code by way of posters in the banking halls and handbills distributed at the bank. Ongoing monitoring of compliance with the code is maintained and ‘mystery shoppers’ were also used for this purpose.
• The National Credit Act
  Extensive system changes, staff training, adaptation of documentation and legal agreements were undertaken in order to meet the requirements of the National Credit Act. Possible regulatory risks have been identified and are being monitored to ensure full compliance by the bank. A detailed review by external consultants is planned for 2009.

• Home Loan and Mortgage Disclosure Act
  This legislation was introduced to level the playing fields in respect of the obtaining of residential property finance by formerly disenfranchised members of our society. In this regard, extensive system changes became necessary by virtue of the Act. Full implementation occurred in 2008.
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 Albaraka Bank during the year under review. We have also conducted our review to form an opinion as to whether Albaraka Bank has complied with the rules and principles of Shari'ah in accordance with the standards set by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

Albaraka Bank's management is responsible for ensuring that the bank conducts its business in accordance with the rules and principles of the Shari'ah. It is the Shari'ah Supervisory Board's (SSB) responsibility to form an independent opinion, based on its review of the operations of Albaraka 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 (draft available as at 16 January 2009);
- Murabaha financing;
- Musharaka financing;
- Equity Murabaha transactions;
- Profit distribution;
- Disposal of impermissible income; and
- Foreign exchange transactions.

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 Albaraka Bank has not violated the rules and principles of the Shari'ah.

In our opinion:
1. The contracts, transactions and dealings entered into by Albaraka Bank during the year under review are generally in compliance with the rules and principles of Shari'ah, subject to certain concerns, namely the following:
   a) In certain cases, as a consequence of inadequate filing, relevant documents relating to Shari'ah compliance were not available at the time of the audit. The SSB has given appropriate directions with regard to the rectification of these transgressions;
   b) Impermissible funds have been segregated. Management has undertaken to distribute such funds to charitable causes as per the guidelines of the SSB; and
   c) Certain transactions requiring rectification were drawn to the attention of management.
2. The allocation of profit relating to investment accounts conforms to the rules and principles of Shari'ah.

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

Dr Abdu Sattar Abu Ghudda  
Chairman  
17 January 2009

Sheikh Mahomed Sheab Omar  
Member

Mufti Shafique Jakhura  
Member
Shari'ah Supervisory Board of Albaraka Bank

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

The board sets out to ensure that all Shari'ah matters regarding Albaraka Bank are dealt with in a professional manner and in strict accordance with the standards set by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

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

It is the responsibility of the Shari'ah 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.

Albaraka Bank's Shari'ah Supervisory Board comprises:

Dr Abdus Sattar Abu Ghudda (Syrian) -
Dr Ghudda is the senior Shari'ah consultant for the Albaraka 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 Shari'ah Supervisory Boards of several Islamic financial institutions. He is an active member of the OIC Islamic Fiqh Academy and the Accounting and Auditing Organisation for Islamic Financial Institutions (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 Shari'ah and in Law from Damascus University. He went on to earn his MA degree in Shari'ah and hadith and his PhD in Shari'ah and comparative fiqh from Al-Azhar University in Cairo.

Mr Mahomed Sheaib Omar -
Mr Omar serves as member of the Shari'ah Supervisory Board of Albaraka 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 Taleemudddeen, 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 has an Advanced Diploma in Islamic banking and finance from the Centre for Islamic Economics, based in Karachi.
Shari’ah 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 Shari’ah. 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 Shari’ah Supervisory Board indicates the absolute commitment to both Shari’ah and Islamic economic principles. The Shari’ah Supervisory Board comprises Mufti Justice (retired) Muhammad Taqi Usmani (Chairman), Dr Muhammad Imran Ashraf Usmani, Mahomed Shaib Omar and Mufti Zubair Bayat.

The board has also appointed a local Shari’ah sub-committee, comprising Mahomed Shaib Omar and Mufti Zubair Bayat, who examine the Shari’ah 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 Shari’ah principles, as set by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). All investments made by the fund ensure ongoing compliance with Shari’ah board directives.

The sub-committee meets at least four times a year in order to ensure the execution of its mandate and to report to the Shari’ah Supervisory Board annually.

A Shari’ah audit is conducted twice annually in an effort to further ensure that returns to investors comply with Shari’ah principles.

The last international Shari’ah board meeting was held on 4 May 2008.
Directors’ Responsibility Statement and 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 balance sheets as at 31 December 2008, the income statements, the statements of changes in shareholders’ equity and cash flow statements 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.

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 separate parent annual financial statements

The group annual financial statements and separate parent annual financial statements were approved by the board of directors on 12 March 2009 and signed on their behalf by:

Adnan Ahmed Yousif
Chairman

Shabir Chehan
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
12 March 2009