
Al Baraka Bank's governance process

Al Baraka Bank fully embraces the principles incorporated in King III. The board of directors and management remain committed to the highest level of corporate governance, seeking to provide, through the implementation of sound values and a well defined governance structure, long-term sustainable value for all its stakeholders.

The board strives to ensure, through its adoption of the principles of good corporate governance, the creation of an ethical foundation which promotes the well-established principles of responsibility, accountability, fairness and transparency.

The King III report on corporate governance remains the bank's primary framework in respect of governance matters. The board of directors confirms that Al Baraka Bank has, except where indicated, applied in all material respects the King III corporate governance principles. The board recognises that corporate governance remains a dynamic process; a process which requires the board to monitor developments and to take cognisance of

As at 31 December 2012, the board comprised 11 directors, seven of whom were independent non-executive directors and two of whom were non-executive directors. The remaining two directors consisted of the chief executive and the financial director.

The directors collectively bring a wide range of skills, experience and knowledge to the board. This balanced blend of attributes enables the board of directors to guide decision-making and strategy and to discharge its duties and responsibilities in an appropriate manner. In order to ensure that the composition, skills, experience and demographic profile of the board remains relevant and appropriate to the environment within which the bank operates, the directors' affairs committee conducts an annual review of the board's composition. The composition of the board ultimately ensures that no single individual director has unfettered powers of decision-making.

The chairman of the board of directors, Mr AA Yousif, is classified as a non-executive director by virtue

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changing legislation, regulations and best practice developments.

Business processes have been reviewed and re-assessed to ensure that they meet the requirements of the Companies Act 2008, as amended. The company's new Memorandum of Incorporation was approved at a special general meeting of shareholders held in March this year, replacing in its entirety the previously existing Memorandum and Articles of Association.

Board of directors

Role and function of the board

The board of directors is the custodian of corporate governance for the bank. Through our governance structures, operational practices and processes – which the board has put in place – the bank seeks to create a balance which drives the sustainability of the business, whilst simultaneously addressing the social, environmental and transformational challenges of the financial sector within which it operates.

Board structure and composition

Al Baraka Bank has a unitary board structure. The roles and responsibilities of the chairman and the chief executive have been defined by the board and are separate.

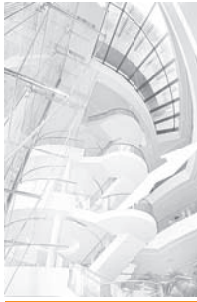
of the fact that he holds the position of president and chief executive of Al Baraka Banking Group. The board of directors considers Mr Yousif to be the best person to fulfil the role of chairman of Al Baraka Bank, given his extensive and wide ranging knowledge of, and experience in, Al Baraka Banking Group and the banking industry as a whole.

Mr SA Randeree has been appointed as the lead independent director to facilitate matters discussed by the board of directors when the chairman may, or is seen to have a conflict of interest.

Independence of directors

The independence of directors is reviewed annually by the directors' affairs committee for approval by the board. Independence is determined in accordance with criteria set out in King III. The board fully subscribes to the principle contained in King III that an independent director should be independent in character and judgement, as well as being independent in fact and in the perception of a reasonably informed outsider.

The board assessed the independence of those independent directors who have served on the board for more than nine years, as is the recommended practice in terms of King III. Currently, there are



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two such independent directors, namely, Adv. AB Mahomed SC and Mr YM Paruk. Having subjected both the directors to a rigorous review in respect of their independence, the board came to the unanimous conclusion that both Adv. AB Mahomed SC and Mr YM Paruk are independent in character and judgement, notwithstanding their length of service on the board.

Succession planning

The board acknowledges the importance of succession planning. Through their annual review of the composition of the board and the respective board committees, which is conducted by the directors' affairs committee, the directors are satisfied that the board has appropriate depth from a succession planning perspective.

No new directors were appointed to the board during the course of the 2012 financial year. All board appointments, when they occur, need to comply with the requirements of applicable legislation, being the Companies Act 2008, as amended, and the Banks Act, 1990, as amended. In terms of the Banks Act, board candidates must be approved by the Reserve Bank, prior to appointment.

Strategy formulation

The board is responsible for determining the strategy of the bank. The board, being responsible for the overall performance of the bank, monitors the implementation of the approved strategy, which reflects the bank's performance targets. Through reports submitted to the board on a quarterly basis, the financial performance of the bank is closely monitored.

As part of the regulatory environment, the board is required to confirm Al Baraka Bank's corporate governance and risk management objectives for the forthcoming year. Having conducted an evaluation of the 2012 corporate governance and risk management objectives, the board is of the opinion that these objectives have, in the main, been attained.

Delegation of authority

Through its well-established governance structure, the board is able to retain effective control of the business. The current governance structure allows the board to delegate appropriate and relevant powers of authority to several board committees and the chief executive, such that the chief executive can manage the bank on a day-to-day basis. The board has formulated its own levels of materiality, reserving specific powers for itself. In order to ensure that delegated powers of authority remain both relevant and material, they are subjected to a regular process of review.

Director training and induction

Given the nature of the changing environment within which the bank operates, ongoing director education remains an area of focus. Directors are,

therefore, kept informed of applicable legislation and regulations insofar as these may impact on the operations of the bank, as well as any changes to rules and business codes which might also affect the manner in which the bank is required to conduct its business. As part of the bank's commitment to the ongoing education of directors, said directors are encouraged to attend external courses, the costs of which are for the bank.

Newly appointed directors receive a governance portfolio containing information relevant to the bank and its operations, including board-approved policies, financial reports, the board charter and those of the board committees, minutes of meetings and key legislation and regulations. A meeting with selected management representatives is scheduled with the newly appointed directors in order to introduce them to the bank, its operations and members of the management team.

Board evaluation and assessment

The performance of the board is evaluated on an annual basis, which is in keeping with the recommendations of King III. This process includes an assessment of the performance and effectiveness of the board as a whole, an evaluation of each committee by members of the committee and an assessment of the chairman and the chief executive. The year under review also saw the introduction of a self-assessment process in respect of directors. The results of the assessments are discussed by the board, having been subjected to in-depth analysis by the directors' affairs committee. No matters of a material nature emerged from the evaluations.

Board meetings

The board held four meetings during 2012. Over and above its quarterly meetings, the board may meet on an ad hoc basis as and when circumstances require. Meetings are scheduled well in advance for the forthcoming year, in consultation with the directors. Directors who are not in a position to attend meetings of the board and the board committees upon which they serve, have an opportunity to link-up via tele-conference and other electronic means, such that their views and comments may be taken into consideration when issues are discussed by the board or board committees.

In order to allow the board to discharge its corporate responsibilities, the board and board committees may, where necessary, seek independent professional advice on any subject matter, such that the directors may give effect to their obligations as directors. The cost of obtaining such independent advice will be at Al Baraka Bank's expense. Where the need arises, directors are free to engage with members of management, in the absence of executive directors with such meetings being co-ordinated through the office of the chief executive. As part of our commitment to an open and transparent corporate governance process, directors engage with management at board and board committee meetings.

The board has a well defined charter which comprehensively records the duties and responsibilities of the board, including the following:

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

The table below outlines attendances at 2012 board and board committee meetings.

Board committees

Board committees constitute an integral part of Al Baraka Bank's corporate governance framework. The board has established a number of committees

to assist it in fulfilling its objectives, inclusive of the audit committee, the risk and capital management committee, the board credit committee, the directors' affairs committee, the remuneration committee and, more recently, the social and ethics committee, which arises out of the requirements of the Companies Act, 2008, as amended.

The board has also established a board property committee, whose mandate is to oversee the development of sites 23 and 24 at Kingsmead Office Park. Unlike the other committees, the board property committee is not a permanent committee and will cease to exist once these sites have been developed. All board committees, with the sole exception of the board property committee, operate in terms of written mandates, setting out the roles, responsibilities, composition and terms of reference of the respective committees.

Whilst the board committees assist the board in fulfilling its objectives, it is the board of directors which bears the ultimate responsibility for the performance of the bank. The minutes of all board committee meetings are circulated to the directors. In addition, the chairman of each committee provides the board with feedback on material matters discussed at each committee meeting, as

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

¹ = Chairman, ² = Deputy Chairman, ³ = General Manager: Credit

⁴ = Manager: Risk, ⁵ = Executive: Regulatory and Compliance



well as on matters requiring approval by the board. In order to assist the board and board committees in the execution of their duties and responsibilities, a number of management committees have also been established.

These management committees include the executive management committee, the executive credit committee, the management risk committee, the assets and liabilities committee, the FICA executive committee and the IT steering committee.

Ad hoc committees are established from time to time, such as the bank's Basel III committee, to ensure compliance with Basel III requirements.

Having reviewed the responsibilities relating to the terms of reference of the respective committees, the bank is satisfied that the committees have fulfilled their mandates appropriately. The primary responsibility undertaken by each board committee during the year under review is set out hereunder:

Audit committee

The responsibilities of the audit committee are a function of the Companies Act, 2008, as amended, and the Banks Act 1990, as amended. The statutory report of the audit committee is included in the annual financial statements.

The internal audit department tabled its risk-based functional plan to the audit committee which approved the plan. Internal audit also undertook an assessment of the state of the bank's internal controls.

Members of the audit committee are all independent non-executive directors. The audit committee met five times during 2012.

MS Paruk
Chairman: audit committee

Risk and capital management committee

The role of the risk and capital management committee is to assist the board in addressing issues of risk and capital management and ensuring compliance with the Banks Act.

The function of the risk and capital management committee is to:

- Ensure the establishment of an independent risk management function, including the provision of training for board members in different risk areas to which the bank is exposed;
- Develop a risk mitigation strategy to ensure that the bank manages its risk in an optimal manner and to assist the board in ensuring that a formal risk assessment is undertaken at least annually;
- Approve new products and ensure that adequate measures have been taken to address all related risks before making recommendations to the board for the approval of such products;
- Assist the board in its evaluation of the adequacy and efficiency of risk policies, procedures, practices and controls applied by the bank; and
- Ensure that processes relating to capital in terms of the bank's internal capital adequacy programme are adequately set aside to the level of risk facing the bank.

The risk and capital management committee is chaired by an independent non-executive director. The risk and capital management committee met four times in 2012.

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



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 credit committee gives effect to its role by, inter-alia:

- Ensuring that the bank's credit risk management process is aligned with the group's credit risk strategy;
- Approving credit authority and mandate levels, in accordance with its delegated powers of authority;
- Reviewing the bank's credit risk management policy for adequacy;
- Assessing the adequacy of Al Baraka Bank's provisioning policy;
- Monitoring credit recovery processes;
- Ensuring adherence to prudential limits; and
- Reviewing stress testing scenarios in respect of credit risks.

Credit committee meetings are also attended by the financial director and management representatives from both the credit and legal departments.

The credit committee met four times during 2012, and is chaired by an independent non-executive director.

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

SA Randeree

Interim chairman: credit committee

Directors' affairs committee

The role of the directors' affairs committee is to assist the board by evaluating the appropriateness of corporate governance structures and practices throughout the bank. The directors' affairs committee gives effect to its role by:

- Reviewing the structure, size, skills, experience and composition of the board which is required for its effective functioning;
- Maintaining a board directorship continuity programme;
- Facilitating an annual assessment of the board and board committees and the contribution of individual directors;
- Identifying, evaluating and recommending nominees to the board of directors and other entities in terms of an agreed process. To this end, the directors' affairs committee serves as the nominations committee for directors;
- Providing a forum for non-executive directors to meet in the absence of executive directors and management; and
- Monitoring the effectiveness of the bank's governance structures.

The membership of the directors' affairs committee is limited to non-executive directors, in accordance with the requirements of the Banks Act. The chief executive attends meetings at the invitation of the directors' affairs committee. The directors' affairs committee met twice during 2012.

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

SA Randeree

Chairman: directors' affairs committee



CORPORATE GOVERNANCE IS CONCERNED WITH HOLDING THE BALANCE BETWEEN ECONOMIC AND SOCIAL GOALS AND BETWEEN INDIVIDUAL AND COMMUNAL GOALS

Remuneration committee

The role of the remuneration committee is to advise the board on a wide range of human resources issues. These include:

- Facilitating the creation of an environment where employees who demonstrate the qualities of initiative, effort, ability, enterprise and loyalty are able to develop meaningful and rewarding careers within Al Baraka Bank;
- Ensuring that an employment equity policy exists and is appropriately implemented. The policy is to address, inter-alia, issues impacting on anti-discrimination, resolution of disputes and disciplinary action;
- Making recommendations to the board on succession planning matters;
- Ensuring that the bank's compensation policy is adjusted for all types of risk; and
- Ensuring that incentive payments are directly linked to the contribution of the individual and the performance of the business.

The chief executive attends meetings of the remuneration committee by invitation, but does not participate in discussions and decisions regarding his own remuneration and benefits.

The remuneration committee is chaired by an independent non-executive director and met on three occasions in 2012.

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

Adv. AB Mahomed SC
Chairman: remuneration committee

Social and ethics committee

The role of the social and ethics committee is to monitor Al Baraka Bank's activities, having due regard to legislation and best practice in the areas of ethics and stakeholder management, with particular reference to employees, communities, consumers and the environment.

The social and ethics committee has its own charter which sets out the duties and responsibilities of the committee.

During the course of the year, the committee considered issues impacting on the environment as well as issues which form part of the bank's corporate social investment programme. In this regard, the committee is looking to incorporate aspects of Al Baraka Banking Group's own corporate social investment programme into the South African programme.

The chairman reports annually to the shareholders on the activities of the committee.

The social and ethics committee is chaired by an independent non-executive director. The composition of the social and ethics committee meets with the requirements of Regulation 43 of the Companies Act.

The social and ethics committee met twice in 2012.

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

M Youssef Baker
Chairman: social and ethics committee



Company secretary

All Al Baraka Bank directors have access to the services of the appropriately qualified and experienced company secretary.

The company secretary maintains an arms length relationship with the board and is not a director.

The company secretary has a direct line of communication to the chairman and provides the board and individual directors with guidance as to how their responsibilities should be discharged in the best interests of the bank.

Preparation of board and board committee packs is the responsibility of the company secretary, with the ongoing education of the directors also being a function which falls within the ambit of the company secretary.

Ethics

Al Baraka Bank has a well-defined and relevant code of business conduct; a code which contains important values and objectives which are aligned with King III principles. Sound values, entrenched within the bank's system of corporate governance, will benefit not only the bank, but all its stakeholder groups.

The code, depicted in full at the beginning of this document, also serves to support the King III principle that ethics constitutes the very foundation of corporate governance.

Codes of transformation

Al Baraka Bank is in the process of obtaining an independent assessment of the bank's Broad-Based Black Economic Empowerment performance through an accredited verification agency.

The bank has also noted the introduction of the approved Financial Sector Code, towards the latter part of 2012, which will be used as the code against which to measure the bank's Broad-Based Black Economic Empowerment performance in future.