

Corporate Governance Report

The purpose of the corporate governance report is to provide the stakeholders of Al Baraka Bank with an overview of the board's commitment to and monitoring of the governance process in relation to the business environment within which the bank operates.

The implementation of good corporate governance is fundamental to the manner in which the bank conducts its business. To this end, the board of directors, supported by management, is committed to conducting the business of the bank in both an ethical and transparent manner, thereby seeking to ensure long-term sustainability on behalf of all stakeholders.

Both the board of directors and management team remain steadfastly committed to implementing the highest standards of corporate governance throughout the bank and its business operations. The bank endorses the principles contained in King III and has sought to implement these principles where deemed appropriate, utilising an 'apply or explain' approach. Where the board is of the view that practices recommended in King III are not appropriate for the bank, reasons for utilising an alternative approach are provided. In terms of the 2013 financial year, the board is satisfied with the way in which the bank has implemented the recommendations contained in King III, or, where the recommendations are not appropriate to the nature and business of the bank, has effectively put in place alternative practices.

Whilst 2013 remained challenging from a corporate governance perspective, it was not without its highlights, some of which included the following:

- The adoption of Al Baraka Bank's new memorandum of incorporation, which is in keeping with the requirements of the Companies Act, No. 71 of 2008, as amended;
- The review of the executive succession plans, which culminated in the appointment of Mr MJD Courtiade as the Chief Operating Officer, Mr A Ameen as the Acting Financial Director and Mr M Kaka as the Executive: International Banking; and
- The introduction of a dedicated online directors' portal, operating within the confines of a secure environment. Through this portal, directors are able to view their board and board committee papers electronically, together with other relevant and appropriate documentation impacting on the business life of the bank.

The board of directors is committed to ensuring that the journey of corporate governance embarked upon by the bank and which was established on the principles of responsibility, accountability, fairness and transparency, will continue to develop and be refined during the course of 2014.

Board of directors

Role and function of the board

The board of directors, being the body responsible for determining the bank's strategy and business operations, is also the guardian of corporate governance for the bank. The board acknowledges that its strategic objectives need to ensure the long-term sustainability of the business, whilst also seeking to address the changing social, environmental and transformational challenges which operating within the dynamic financial sector brings into play.

Board structure and composition

Al Baraka Bank has a unitary board structure. As at 31 December 2013, the board comprised 11 directors, seven (64%) of whom are independent non-executive directors, two (18%) of whom are non-executive directors and two (18%) of whom are executive directors, being the chief executive and the chief operating officer. During the course of 2013, Mr MJD Courtiade, formerly the bank's financial director, was appointed as chief operating officer. To address the requirements of King III, Mr A Ameen, previously the general manager: finance, was appointed acting financial director.

The board acknowledges that the environment within which the bank operates is subject to ongoing change. For this reason, the directors' affairs committee conducts an annual review of the composition of the board, to

ensure that the diversity of the board composition, the skills and experience of the directors which they bring to the board, as well as the demographic profile of the board remains both appropriate and relevant to the business of the banking sector. Through this process of annual review, the directors ensure that the board composition is such that dominance by an individual director in the process of decision-making is negated.

The roles and responsibilities of the chairman and the chief executive have been well defined by the board and are separate. The board has appointed a non-executive director, Mr AA Yousif, as chairman. Mr Yousif is not deemed to be an independent non-executive director as he currently occupies the position of president and chief executive of Al Baraka Banking Group, which is the major shareholder of the bank in South Africa. However, given Mr Yousif's general banking experience and in-depth knowledge of Al Baraka Banking Group, the board is of the opinion that Mr Yousif is best suited to fulfil the role of chairman. The chairman is appointed annually, in line with the recommendations of King III. The board of directors has further extended this to the vice-chairman, who is also elected on an annual basis.

Mr SA Randeree fulfilled the function of lead independent director, which is also in keeping with King III recommendations.

Independence of directors

The board of directors affirms the principle contained in King III that an independent director should not only be independent in character and judgement, but should also be independent in fact and in the perception of a reasonably informed outsider. In view of this, the directors' affairs committee is responsible for reviewing, on an annual basis, the independence of independent non-executive directors who have served longer than nine years on the board together with other factors that may impair their independence.

The directors' affairs committee, having conducted its review, is of the opinion that Adv. AB Mahomed SC, Mr YM Paruk and Mr MS Paruk continue to be independent in both character and judgement, notwithstanding their respective lengths of service on the board of directors.

Succession planning

Succession planning continues to be an important area of focus, especially at board, executive and senior management level. The directors' affairs committee conducts an annual review of the composition of the board and board committees, the purpose of which is to ensure that the business needs of the bank, from both a current and a future perspective, are capable of being met. Arising from this review, the board is satisfied that the succession planning requirements of the bank are sufficiently addressed through the leadership talent that is available to the bank. The appointment of directors to the board is both a formal and transparent process and is conducted in terms of prevailing legislative and regulatory requirements, which specifically includes the Banks Act of 1990 and the Companies Act of 2008, as amended. Where appropriate, suitable candidates are identified and subsequently recommended to the full board of directors for approval. Should the Reserve Bank not raise any objections to the proposed appointment, the director may be formally appointed to the board of directors.

Strategy formulation

The board approves the long-term and short-term strategies for the bank, ensuring that the strategy is aligned with the overall purpose of the bank, whilst also taking into account the value drivers of the business, coupled with the interests of stakeholders.

Being responsible for the effective control of the bank, the board closely monitors the practical implementation of the approved strategy.

The board is also responsible for determining Al Baraka Bank's corporate governance and risk management objectives, in terms of prevailing banking regulatory requirements. In this regard, the board is satisfied that the objectives set for 2013 have been satisfactorily achieved.



Delegation of authority

Al Baraka Bank has a well-established corporate governance structure in place, through which the board retains effective control of the business of the bank. The board has defined its own levels of materiality, reserving specific powers to itself, whilst delegating other powers to the board committees and the chief executive. The chief executive, in turn, delegates appropriate powers to management, such that the business of the bank may be conducted on a day-to-day basis. Recognising the changing nature of the banking business environment, the board of directors annually reviews delegated powers of authority, so as to ensure that they remain relevant and may be utilised to assist management in the successful attainment of the bank's business objectives.

Director development

The board of directors supports and encourages ongoing director development, on the understanding that such development will assist in fostering improved governance practices, not only within the board, but also throughout the organisation. Directors are kept informed in respect of developments pertaining to legislation and regulations which impact on the business framework of the bank. Where appropriate, directors are encouraged to attend external training courses, the costs of which are borne by the bank. During the course of 2013, the board received an update on Basel III matters, which programme took place outside normal board meetings.

As part of the induction process for newly appointed directors, they are introduced to key members of management and the business operations of the bank. In addition, upon appointment, directors receive a governance pack comprising relevant governance information, inclusive of board policies, financial reports, charters of the board and the board committees, relevant sets of minutes and copies of legislation and regulations which impact on the operating environment of the bank.

Performance assessment

In order to assess its level of effectiveness, the performance of the board is evaluated on an annual basis, in keeping with the practice recommended in King III.

The process of assessment, which was conducted internally and not through the means of external consultants, includes not only the board, but also the committees of the board, the chairman and the chief executive, as well as individual directors, both non-executive and executive. The directors' affairs committee, having analysed the findings of the series of evaluations, reports its findings to the board of directors.

The outcome of such evaluations confirmed that there were no issues of a material nature which needed to be addressed by the board.

Board meetings

In accordance with the requirements of its charter, the board of directors met on four occasions during the course of 2013. Additional meetings may be convened where necessary, in order to address issues which may impact

on the bank between planned board meetings. Through a process of consultation with the board, meeting dates are scheduled well in advance for the following year. Also included in the director's year planner are the regulatory meetings scheduled with the South African Reserve Bank, which are usually scheduled to co-incide with a board meeting.

Where directors are unable to attend board and board committee meetings for any reason, they may attend via teleconference or other electronic means. In this way, their views may still be taken into consideration, especially with regard to key and strategic matters.

Access to information

Board documentation is distributed in a timely manner ahead of board and board committee meetings, thereby allowing directors sufficient time within which to familiarise themselves with the material.

The availability of board documentation has been expedited with the introduction of the directors' portal during the 2013 financial year, which has significantly enhanced the distribution of board material, whilst still retaining its confidentiality.

Board documentation includes both financial and non-financial information, the latter allowing directors to consider issues of qualitative performance.

In order to allow the board to discharge its corporate responsibilities, the directors are empowered to consult with professional advisors on any subject, should they so wish.

The cost of such advice will be at the bank's expense. Directors are also empowered to engage with members of management in the absence of executive directors. Such meetings are, as a matter of courtesy, co-ordinated through the office of the chief executive.

The board has formulated a comprehensive charter, which sets out its duties and responsibilities in a clear and concise manner.

The charter is reviewed annually, the purpose of which is to establish whether it requires amendment and also to assess how the board is performing against charter items.

The board charter addresses, inter-alia, the following matters:

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

Corporate Governance Report (continued)

The table below sets out, at a glance, attendances at the 2013 board and board committee meetings:

Name of Director/ Member	Board	Audit	Risk and capital management	Board credit	Directors' affairs	Remuneration	Social and ethics
AA Yousif	3/4 ¹	-	-	-	-	-	-
SA Randeree	4/4 ²	-	-	3/4 ¹	1/2 ¹	4/4	-
F Kassim	4/4	-	-	-	2/2	-	-
A Lambat	4/4	5/5	4/4 ¹	-	-	-	-
Adv. AB Mahomed SC	4/4	5/5	4/4	-	-	4/4	-
MS Paruk	4/4	5/5 ¹	4/4	4/4	-	-	-
YM Paruk	4/4	-	4/4	-	-	4/4 ¹⁺⁶	-
M Youssef Baker	3/4	4/5	-	-	2/2	-	2/2 ¹
SAE Chohan	4/4	-	-	3/4	-	-	2/2
MG McLean	4/4	-	-	4/4	-	-	-
MJD Courtiade	4/4	-	4/4	-	-	-	-
EM Hassan	-	-	-	4/4 ³	-	-	-
Y Nakhoda	-	-	4/4 ⁴	-	-	-	-
Adv. MA Vahed	-	-	-	-	-	-	2/2 ⁵

¹ = Chairman, ² = Deputy chairman, ³ = General manager: credit

⁴ = Risk manager, ⁵ = Executive: regulatory and compliance, ⁶ = Chairman, with effect 20 May 2013

Board committees

The board of directors acknowledges that it is ultimately responsible for the overall performance of the bank. Recognising this, the board has appointed several committees to assist it to meet its objectives. Notwithstanding that the board delegates certain functions and powers to the board committees, the board confirms that such delegation does not detract from the fact that the board bears ultimate responsibility for the performance of the bank.

The board has established six standing committees, namely the audit committee, the risk and capital management committee, the board credit committee, the directors' affairs committee, the remuneration committee and the social and ethics committee. The board has also established the board property committee, a specialist committee whose function it is to oversee the development of the bank's property, which it acquired at Kingsmead Office Park. Upon the completion of the property development, the board property committee will have completed its mandate and will be disbanded.

Each of the standing board committees possess charters, which record the rights, powers, duties and functions of the respective board committees. The charters are currently reviewed on an annual basis, together with an assessment as to whether the committee in question is fulfilling its terms and conditions.

As part of the governance process employed by the board, the chairmen of the board committees provide the board with feedback on issues discussed at the most recent committee meetings, such that the board obtains an understanding of the material issues discussed in greater detail at the committee meetings. Minutes of the board committees also form part of board documentation, thus further supporting the board's commitment to an open and transparent process of corporate governance.

The governance framework also includes various management committees, whose objectives are to support the board and board committees in the efficient execution of their responsibilities and duties. The 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. Where necessary, specialist committees are established in order to achieve specific objectives.

The board has reviewed the terms of reference of the board committees and is satisfied that the committees have fulfilled their mandates appropriately.

The principal functions and responsibilities undertaken by the board committees are set-out hereafter.



Audit committee

The statutory report of the audit committee, whose responsibilities are determined in accordance with the requirements of the Companies Act of 2008, as amended and the Bank's Act of 1990, as amended, forms part of the annual financial statements.

During the course of its meetings in 2013, the audit committee:

- Reviewed the state of the bank's internal controls;
- Considered and reviewed various reports from internal audit, the Shariah Department and compliance in terms of a variety of matters impacting on the bank;
- Addressed the Reserve Bank's 'flavour of the year topics' ; and
- Met independently with the external auditors and internal audit.

Members of the audit committee are all independent non-executive directors and are financially literate.

The audit committee met five times during 2013.

MS Paruk

Chairman: audit committee

Risk and capital management committee

The role of the risk and capital management committee is to primarily assist the board, as well as management, in addressing all issues of risk confronting the bank.

The terms of reference of the risk and capital management committee are set out in its charter and are designed to:

- Assist the board in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the bank in the day-to-day management of its business;
- Assist the board in developing a risk mitigation strategy to ensure that the bank manages risks in an optimal manner;
- Assist the board in ensuring that a formal risk assessment is undertaken at least annually;
- Assist the board in identifying and regularly monitoring all key risk and key performance indicators to ensure that its decision-making capability and accuracy of its reporting is maintained at a high level;
- Ensure that the 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; and
- Establish and implement a process which states capital adequacy goals with respect to risk, taking into account the bank's strategic focus and business plan.

The risk and capital management committee met four times during 2013. The committee is chaired by an independent non-executive director. The risk and capital management committee is satisfied that it discharged its responsibilities in accordance with the terms of its charter.

A Lambat

Chairman: risk and capital management committee

Corporate Governance Report (continued)

Credit committee

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

The terms of reference of the credit committee are recorded in its charter and are designed to:

- Ensure that the bank's credit risk management process is aligned with the group's credit risk strategy;
- Approve advances in terms of board-approved delegations;
- Approve credit authority and mandate levels, as per its delegated power of authority;
- Review the bank's credit risk management policy for adequacy and ensure that such policy is approved by the board;
- Approve write-offs of debtor accounts within its delegated authority;
- Monitor the credit recovery processes and the progress made on all matters handed over for legal action, including facilities that are long outstanding and that require additional attention and supervision; and
- Ensure that Al Baraka Bank complies with all regulatory returns in respect of credit risk functions.

Mr SA Randeree was confirmed by the board as the chairman of the credit committee in November 2013. Prior to this appointment, Mr Randeree had served as the interim chairman of the credit committee.

Mr Randeree is classified as an independent non-executive director.

The credit committee met four times during 2013. The credit committee is satisfied that it discharged its responsibilities in accordance with the terms of its charter.



SA Randeree

Chairman: credit committee

Directors' affairs committee

The role of the directors' affairs committee is to assist the board of directors in its determination and evaluation of the adequacy, efficiency and appropriateness of corporate governance structures and accompanying practices of the bank.

In order to achieve this objective, the directors' affairs committee:

- Provides a forum for non-executive directors to meet without executive directors and management;
- Identifies, evaluates and recommends nominees to the board of directors in terms of an agreed process;
- Ensures that an appropriately structured induction training course is formulated and implemented for all new directors and that there is ongoing development for directors;
- Annually reviews the structure, size and composition of the board taking into account the requirements of the board committees;
- Regularly reviews the composition, skills, experience and other qualities required for the effective functioning of the board and the board committees; and
- Considers methodologies for the annual assessment of the performance of the board and board committees and contribution of the individual directors.

Membership of the directors' affairs committee is limited to non-executive directors, which is a requirement of section 64B of the Banks Act. Given this legislative requirement, the chief executive attends meetings of the directors' affairs committee strictly by invitation only. The directors' affairs committee met on two occasions during the course of 2013. The directors' affairs committee is satisfied that it discharged its responsibilities in accordance with its charter.



SA Randeree

Chairman: directors' affairs committee



Remuneration committee

The remuneration committee advises the board of directors on a wide range of human resource issues, with special emphasis on matters of remuneration and staffing.

Some of the functions of the remuneration committee include the following:

- To utilise surveys, external independent remuneration consultants and industry data in determining salary structures for the staff;
- To make recommendations to the board on succession planning issues, both at senior management and executive management level;
- To ensure that the appropriate quality of executive and senior management is attracted, retained, motivated and rewarded;
- To ensure that an employment equity policy exists that addresses, amongst other things, discrimination, disputes, affirmative action and disciplinary action;
- To be responsible for recommending to the board any share or share incentive scheme; and
- To ensure that employees' incentive payments are linked to the contribution of the individual and business performance.

The remuneration committee is chaired by an independent non-executive director and met on four occasions during 2013.

Mr YM Paruk became chairman of the remuneration committee during the course of 2013, succeeding Adv. AB Mahomed SC. The remuneration committee is satisfied that it discharged its responsibilities in accordance with its charter.

YM Paruk

Chairman: remuneration committee

Social and ethics committee

The social and ethics committee was established during the course of 2011, pursuant to the introduction of the new Companies Act in May 2011.

The role of the committee, as stated in its charter, is to monitor Al Baraka Bank's activities to ensure that they are being conducted ethically and comply with banking legislation, legal requirements and best practice in the banking sector, with particular reference to regulators, clients, employees and environment.

To achieve its obligations, the social and ethics committee implemented an action plan during 2013 which included a number of initiatives to support the local communities and NGOs in South Africa by way of donations, besides providing training to Al Baraka Bank's employees to enhance their knowledge of banking, improve their careers and ensure that the bank's operations are conducted in an ethical and responsible manner and that the interests of its various stakeholders are maintained.

The social and ethics committee is chaired by an independent non-executive director.

The composition of the committee is in accordance with the requirements of Regulation 43 of the Companies Act Regulations 2011. The social and ethics committee met twice in 2013.

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

Corporate Governance Report (continued)

Company secretary

The company secretary is responsible for ensuring that the board of directors remains up-to-date with developments in the area of best governance practice.

All directors have access to the services of the appropriately qualified and experienced company secretary. The company secretary is responsible for all administration relating to the board and board committees, which includes the preparation of relevant meeting packs.

One of the functions of the company secretary is to oversee the induction of new directors, as and when such appointments are made.

The board is of the view that the company secretary and the board have maintained an arms-length relationship. In support of this view, the company secretary is neither a director nor a prescribed officer.

Ethics

The board of directors acknowledges that conducting business in an ethical manner is key to the long-term sustainability and success of the business.

Al Baraka Bank has developed a code of business conduct, with the board confirming that employees who place a high premium on ethical behaviour are essential to the ongoing success of the bank's business.

The board adopts a zero tolerance approach in respect of ethical misconduct, expecting its members of staff to display the highest levels of integrity in their endeavours at all times.

Codes of transformation

With the introduction of the financial sector code, Al Baraka Bank will conduct its future Broad-Based Black Economic Empowerment (B-BBEE) reporting in terms of this code. Al Baraka Bank is, in terms of its current BEE rating, classified as a Level 3 Contributor.

Remuneration paid to employees who have a material impact on the bank's exposure to risk

Aggregate compensation of other executive, general and senior management, other than directors, who have a material impact on the bank's exposure to risk equated to R11,3 million (2012: R9,7 million).