

# Compliance Report

The regulatory landscape has changed significantly over the years with a swathe of new legislation being introduced annually.

The bank ensures the continuous up-skilling of compliance personnel in order to facilitate capable and exceptional service delivery.

The primary role of Al Baraka Bank's compliance function is to monitor regulatory and reputational risk.

Regulatory risk is understood to be the risk that the bank could be exposed to penalties and sanctions for not complying with statutory, regulatory and supervisory requirements imposed by the South African Reserve Bank and any other regulatory bodies by which Al Baraka Bank is regulated. Reputational risk is the risk that the bank could be exposed to negative publicity resulting from a contravention of laws applicable to the bank.

The compliance function sets out to actively assist management in complying with both the letter and spirit of the law and supervisory requirements. The compliance officer performs under an authority delegated by the board, in terms of a board-approved compliance charter and enjoys unrestricted access to the chief executive, the audit committee and the chairman of the board.

Updates or reports are regularly submitted to the audit committee, board and the South African Reserve Bank regarding matters of compliance. There were no material issues of non-compliance which had to be reported during the 2013 financial year.

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

- **Anti-money laundering control and combating of terrorism legislation**  
With long-standing procedures and policies in place, the bank enjoys a systematic approach to detecting suspicious activity and reporting such transactions, in the prescribed format, to the authorities. There have been significant enhancements to technology related to anti-money laundering and terrorist detection and the bank continues to explore all relevant systems and processes to assist in this function. The bank's focus on compliance continues being maintained by dedicated branch staff, the anti-money laundering officer and compliance officer.
- **Financial Advisory and Intermediary Services Act (FAIS Act)**  
Al Baraka Bank's licence allows for the implementation of various activities designed to ensure compliance with the Act. These include:
  - The identification and appointment of additional representatives, the establishment of training requirements and the updating of the required register;
  - A review of processes, communication, promotional and other materials to align with the requirements of the Act and codes of consumer protection;
  - The up-skilling of staff to meet the qualification requirements of FAIS; and
  - The updating of the bank's FAIS policy and procedure document as and when required.
- **Home Loan and Mortgage Disclosure Act**  
This legislation was introduced to level the playing fields in respect of access to residential property finance by formerly disenfranchised members of our society. In this regard, extensive system changes were necessitated by the Act. Further changes in reporting requirements were introduced during the period under review by the Office of Disclosure in the Department of Human Settlements.

This, in turn, necessitated further extensive enhancements to the bank's systems. The Office of Disclosure is furnished with the required statistics on an annual basis.

- **National Credit Regulations (NCR)**  
The bank complies with ethical standards in terms of credit-granting, inclusive of regular communication with and reporting to the Regulator. Policies, processes and documents are also continuously revised to ensure sufficient alignment with the requirements of prevailing credit legislation.
- **Monitoring**  
Monitoring is regarded as a vital component of the compliance function and an extensive monitoring plan has been incorporated into the bank's system. In addition, the monitoring of legislation has been greatly enhanced as a direct result of the introduction of new compliance software. Four internal control officers, one each in the Durban and Cape regions and two in the Gauteng region, also assist with monitoring compliance of various elements of legislation. Independent monitoring of legislation is also conducted separately by the compliance division.
- **New legislation**  
Protection of Personal Information Act:  
The Protection of Personal Information Act, which has been signed into law, but which is not yet effective, has resulted in the establishment of a project team to drive its implementation within the bank.
- **Foreign Account Tax Compliance Act**  
The Foreign Account Tax Compliance Act (FATCA):  
This Act imposes a penal withholding tax on foreign entities which refuse to disclose the identities of US persons with offshore bank accounts and/or investments that commit tax evasion.  
  
The Al Baraka Banking Group in Bahrain has conducted an assessment of FATCA compliance within the group and each of its subsidiaries and relevant reports have been issued to each unit. The bank here, in South Africa, has formed a task force and steering committee to ensure compliance with FATCA.
- **Combined assurance**  
The compliance, risk and internal audit divisions have been putting together an effective bank-wide Combined Assurance Model. Once completed, this will greatly assist the bank in streamlining processes and further enhancing corporate governance.
- **Zero tolerance**  
The bank applies a zero tolerance approach with regard to non-compliance and prides itself on maintaining a healthy culture of compliance to laws, rules, standards and policies.

Wherever possible, the requirement to comply is repeatedly emphasised with a view to ensuring full compliance with all relevant laws.

The bank also employs a rigorous recruitment policy to ensure members of staff with the correct skill-sets and attributes, as well as qualifications, are secured for compliance-related positions. The bank's commitment to compliance remains resolute.