



South African Reserve Bank
FROM THE OFFICE OF
THE REGISTRAR OF BANKS

CONFIDENTIAL

2005-09-07

TO ALL BANKS, BRANCHES OF FOREIGN BANKS AND MUTUAL BANKS

BANKS ACT CIRCULAR 5/2005

REPORT ON THE STANDARD OF CORPORATE GOVERNANCE IN BANKING INSTITUTIONS

1. INTRODUCTION

Banks Act Circular 13/2004, in which this Office announced the commencement of a review to be undertaken to assess compliance with sound corporate governance practices in the remaining banking institutions other than the five major banking institutions and foreign branches, refers. The review has now been concluded, the outcome thereof is a general report, which is attached to this circular.

The review process, which was very similar to that undertaken in respect of the Myburgh Report on the Standard of Corporate Governance in the Five Largest Banks, included the following:

- (a) Analysis of various documents, including minutes of meetings of the following bodies of the banks under review:
 - Board of directors.
 - Audit committee.
 - Risk committee.
 - Remuneration committee.
 - Directors' affairs committee.
- (b) Interviews, 191 in total, with the following:
 - All directors of the banks under review.
 - Heads of the following functions:
 - Risk management.
 - Compliance.
 - Internal audit.
 - Company secretariat.
 - External auditors of the banks reviewed.
- (c) Consolidation of the information received and report writing.

2. GENERAL FINDINGS

After reviewing the corporate governance of the banks under review, this Office has made the following general findings:

- The banks are committed to adherence to and application of high standards of corporate governance.
- Senior management and the boards of directors of the banks reviewed take their responsibilities to ensuring effective corporate governance seriously.
- The banks from time to time, on their own initiative, review their corporate governance to ensure compliance with accepted corporate-governance principles.
- The corporate governance of the majority of the banks is sound.
- The banks reviewed are mindful that they operate on the basis of continuous improvement, especially given the ever evolving governance standards in South Africa and internationally.

The following areas of concern, however, are highlighted in the general report:

- The compliance function.
- Director selection.
- Continuous training and updating of skills of all directors.
- Board monitoring of management and unresolved issues.
- Transformation within boards.
- Non-effectiveness of the directors' affairs committees.
- Segregation of duties.

3. ONGOING CORPORATE-GOVERNANCE SUPERVISION OF BANKS

This Office accepts the findings and recommendations in the reports. The banking institutions that took part in the review will each be furnished with their individual bank's report. This Office will then engage the banking institutions with a view to addressing any weaknesses identified in the reports as part of its ongoing supervision of the banking sector's commitment to sound corporate governance.

This Office wishes to thank all parties involved for their time, inputs and candour during the review process.

4. ACKNOWLEDGEMENT OF RECEIPT

Two additional copies of this circular are enclosed for the use of your institution's external auditors. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer of the institution and the said auditors, should be returned to this Office at the earliest convenience of the aforementioned signatories.

E M Kruger
Registrar of Banks

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The previous circular issued was Banks Act Circular 4/2005 dated 22 July 2005.