



Albaraka Bank Limited

Registration number 1989/003295/06

Annual Financial Statements

for the year ended 31 December 2009

Your Partner Bank

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Independent Auditor's Report

to the members of Albaraka Bank Limited and its subsidiary

Report on the financial statements

We have audited the annual financial statements of Albaraka Bank Limited, and its subsidiary which comprise the directors' report, the statement of financial position as at 31 December 2009, the statement of comprehensive income, the statement of changes in shareholders' equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 38 to 91.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and the group as at 31 December 2009, the financial performance of the company and group and the cash flows of the company and group for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Ernst & Young Inc.

Ernst & Young Inc.

Registered Auditor

19 March 2010

Durban

Directors' Report

for the year ended 31 December 2009

The directors have pleasure in presenting their report for the year ended 31 December 2009.

Nature of the business

Albaraka Bank Limited is a registered bank domiciled in South Africa and has as its principal objective the operation of its business according to Islamic banking precepts. The bank serves the public through branches in Athlone (Cape Town), Fordsburg (Johannesburg), Laudium (Pretoria), Lenasia (Johannesburg), Kingsmead (Durban), Overport (Durban), and corporate offices in Cape Town, Durban, Johannesburg and Port Elizabeth.

The bank's parent and ultimate holding company is Al Baraka Banking Group B.S.C., a company incorporated in the Kingdom of Bahrain. The address of its registered office is PO Box 1882, Manama, Kingdom of Bahrain.

Share capital

The authorised share capital of the company comprises 30,0 million (2008 : 30,0 million) ordinary shares of R10 each amounting to R300,0 million (2008 : R300,0 million). The issued share capital of the company comprises 15,0 million (2008 : 15,0 million) ordinary shares of R10 each amounting to R150,0 million (2008 : R150,0 million).

Financial results

The results of the group and the company for the year ended 31 December 2009 are set out on pages 40 to 91.

Dividends

On 09 June 2009 the directors declared a dividend of 45 cents (2008 : 35 cents) per share amounting to R6,8 million (2008 : R5,3 million) paid to shareholders registered as at close of business on 12 June 2009.

Directors

The directors of the company during the year under review were:

Non-executive

AA Yousif	(Bahraini)	Chairman
SA Randeree	(British)	Vice chairman
OA Suleiman	(Sudanese)	
M Youssef Baker	(Egyptian)	

Independent non-executive

F Kassim	(Sri Lankan)	
A Lambat		
Adv. AB Mahomed SC		
MS Paruk		
YM Paruk		

Executive

SAE Chohan		Chief executive
MG McLean		Deputy chief executive
MJD Courtiade	(French)	Financial director

Secretary

The secretary of the company is CT Breeds whose business and postal address is as follows:

Business address	Postal address	Registered address
2 Kingsmead Boulevard Kingsmead Office Park Stalwart Simelane Street (Stanger Street) Durban 4001	PO Box 4395 Durban 4000	2 Kingsmead Boulevard Kingsmead Office Park Stalwart Simelane Street (Stanger Street) Durban 4001

Subsidiary company

The bank has a wholly-owned subsidiary, Albaraka Properties (Proprietary) Limited, which is engaged in property owning and letting.

	2009	2008
	R	R
Shares	100	100
Amount owing	7 635 683	47 373 620
Impairment losses	-	(667 976)
	7 635 783	46 705 744

Events after the reporting period

No events have occurred between the financial year end and the date of this report that materially affect the reported results and financial position of Albaraka Bank Limited and its subsidiary company.

Statement of Financial Position

as at 31 December 2009

	Notes	Group		Company	
		2009	2008	2009	2008
		R'000	R'000	R'000	R'000
Assets					
Property and equipment	3	115 103	67 874	103 457	22 181
Investment in and amount due by subsidiary company	4			7 636	46 706
Deferred tax asset	5	7 193	6 325	7 388	6 144
Investment securities	6	6 535	5 972	6 535	5 972
Advances and other receivables	7	2 058 904	1 604 330	2 058 476	1 604 323
Cash and cash equivalents	8	192 901	186 155	192 901	186 155
Total assets		2 380 636	1 870 656	2 376 393	1 871 481
Equity and liabilities					
Equity					
Share capital	9	150 000	150 000	150 000	150 000
Reserves	10	78 853	66 856	78 280	66 856
Shareholders' interest		228 853	216 856	228 280	216 856
Liabilities					
Welfare and charitable funds	11	7 233	15 415	7 233	15 415
Accounts payable	12	14 890	14 229	11 220	15 054
Deposits from customers	13	2 129 660	1 624 156	2 129 660	1 624 156
Total equity and liabilities		2 380 636	1 870 656	2 376 393	1 871 481

Statement of Comprehensive Income

for the year ended 31 December 2009

	Notes	Group		Company	
		2009	2008	2009	2008
		R'000	R'000	R'000	R'000
Income earned from advances		186 052	172 490	186 052	172 490
Income earned from equity finance		27 789	23 415	27 789	23 415
Gross income earned		213 841	195 905	213 841	195 905
Income paid to depositors		(121 245)	(106 406)	(121 245)	(106 406)
Net income before impairment for credit losses		92 596	89 499	92 596	89 499
Impairment for credit losses	7.3.3	(1 123)	(2 357)	(1 123)	(2 357)
Net income after impairment for credit losses		91 473	87 142	91 473	87 142
Net non-Islamic income	14	-	-	-	-
Fee and commission income	15	7 777	7 774	7 977	7 974
Other operating income	16	1 944	1 991	1 663	1 693
Net income from operations		101 194	96 907	101 113	96 809
Operating expenditure	17	(83 417)	(65 949)	(82 787)	(65 851)
Finance costs				(1 499)	-
Profit before taxation		17 777	30 958	16 827	30 958
Taxation	18	618	(9 229)	995	(9 229)
Profit for the year attributable to equity holders		18 395	21 729	17 822	21 729
Other comprehensive income					
Gain/(loss) on available-for-sale financial assets		489	(1 660)	489	(1 660)
Income tax relating to (gain)/loss on available-for-sale financial assets		(137)	465	(137)	465
Other comprehensive income/(loss) for the year, net of tax, attributable to equity holders		352	(1 195)	352	(1 195)
Total comprehensive income for the year, net of tax, attributable to equity holders		18 747	20 534	18 174	20 534
Weighted average number of shares in issue ('000)		15 000	15 000		
Basic and diluted earnings per share (cents)	19	122,6	144,9		

Statement of Changes in Shareholders' Equity

for the year ended 31 December 2009

	Share capital	Investment risk reserve	Retained income	General credit risk reserve	Regulatory credit risk reserve	Shareholders' interest
	R'000	R'000	R'000	R'000	R'000	R'000
Group						
2009						
Balance at beginning of year	150 000	2 605	52 995	600	10 656	216 856
Total comprehensive income			18 747			18 747
Profit for the year			18 395			18 395
Other comprehensive income			352			352
Dividends paid			(6 750)			(6 750)
Balance at end of year	150 000	2 605	64 992	600	10 656	228 853
2008						
Balance at beginning of year	150 000	2 605	37 711	600	10 656	201 572
Total comprehensive income			20 534			20 534
Profit for the year			21 729			21 729
Other comprehensive loss			(1 195)			(1 195)
Dividends paid			(5 250)			(5 250)
Balance at end of year	150 000	2 605	52 995	600	10 656	216 856

Company

2009

	Share capital	Investment risk reserve	Retained income	General credit risk reserve	Regulatory credit risk reserve	Shareholders' interest
	R'000	R'000	R'000	R'000	R'000	R'000
Balance at beginning of year	150 000	2 605	52 995	600	10 656	216 856
Total comprehensive income			18 174			18 174
Profit for the year			17 822			17 822
Other comprehensive income			352			352
Dividends paid			(6 750)			(6 750)
Balance at end of year	150 000	2 605	64 419	600	10 656	228 280

2008

Balance at beginning of year	150 000	2 605	37 711	600	10 656	201 572
Total comprehensive income			20 534			20 534
Profit for the year			21 729			21 729
Other comprehensive loss			(1 195)			(1 195)
Dividends paid			(5 250)			(5 250)
Balance at end of year	150 000	2 605	52 995	600	10 656	216 856

Statement of Cash Flows

for the year ended 31 December 2009

	Notes	Group		Company	
		2009	2008	2009	2008
		R'000	R'000	R'000	R'000
Cash flow from operating activities					
Cash generated from operations	21.1	22 940	35 805	22 027	36 102
Changes in working capital	21.2	50 229	49 750	46 943	49 547
Taxation paid	21.3	(7 136)	(17 490)	(7 923)	(17 566)
Dividends paid	21.4	(6 750)	(5 250)	(6 750)	(5 250)
Net cash inflow from operating activities		59 283	62 815	54 297	62 833
Cash flow from investing activities					
Additions to property and equipment	21.5	(52 664)	(39 543)	(87 416)	(10 754)
Purchase of investment securities		(74)	(31)	(74)	(31)
Proceeds from disposal of property and equipment		201	258	201	258
Decrease/(increase) in investment in and amount due by subsidiary				39 738	(28 807)
Net cash utilised in investing activities		(52 537)	(39 316)	(47 551)	(39 334)
Net cash from financing activities		-	-	-	-
Net increase for the year		6 746	23 499	6 746	23 499
Cash and cash equivalents at beginning of year		186 155	162 656	186 155	162 656
Cash and cash equivalents at end of year	8	192 901	186 155	192 901	186 155

Accounting Policies

for the year ended 31 December 2009

1 Reporting entity

Albaraka Bank Limited is a company domiciled in South Africa. The company's registered address is 2 Kingsmead Boulevard, Kingsmead Office Park, Stalwart Simelane Street (Stanger Street), Durban, 4001. The consolidated financial statements of the company for the year ended 31 December 2009 comprise the company and its subsidiary (together referred to as the "group"). The group is primarily involved in corporate and retail banking according to Islamic banking precepts.

2 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with, and comply with the South African Companies Act and International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial assets which are measured at fair value.

Functional and presentation currency

These consolidated financial statements are presented in South African Rand which is the company's functional currency. All financial information is presented in South African Rand.

Use of estimates and judgements

The preparation of the group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The key assumptions concerning the future and other key sources of uncertainty, at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

In determining the rate intrinsic in finance leases, the group estimates any unguaranteed residual value which may be realised at the end of the lease. This unguaranteed residual is compared to the fair value of the underlying asset and is valued independently on a regular basis.

The impairment on advances comprises a specific impairment. The specific impairment is calculated by considering all advances that are categorised as bad (greater than 90 days in arrears). Each advance is then scrutinised to determine whether an impairment is required by assessing the cash flow being received on the advance. In calculating the impairment against the individual advance the following assumptions were made:

- A constant cash flow would be received based on the recent payment history;
- The cash flow would be received for a period that was sufficient to repay the outstanding advance amount; and
- The discount rate used is equivalent to the mark-up profit rate on the advance.

The portfolio impairment is calculated based on the historical trend of deterioration in the book from good to bad. The average deterioration of the book over the last five years has been used as the basis for providing the portfolio impairment. In addition, in the current year, management considered external economic and other indicators for their impact on the advances book to ensure that the portfolio impairment catered for the impact of the global financial crisis and its local impact.

Accounting Policies *(continued)*

for the year ended 31 December 2009

3 **Basis of consolidation**

Investment in subsidiary

Subsidiaries are entities controlled by the bank. Control exists when the bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investment in subsidiary is carried at cost less accumulated impairment in the separate company financial statements.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

4 **Property and equipment**

Land is not depreciated. Items of equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Equipment and motor vehicles are depreciated on a reducing balance basis. Buildings, tank containers, computer software and hardware, and leasehold improvements are depreciated on a straight line basis. The current estimated useful lives are as follows:

Buildings	- Owned	50 years
	- Leased	15 years
Tank containers		20 years
Equipment		5 - 10 years
Vehicles		3 - 5 years
Computer software		3 - 5 years
Computer hardware		3 - 5 years
Leasehold improvements		3 - 5 years

The assets' depreciation methods, residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date. Management has exercised judgement in determining useful lives and residual values of each category of property and equipment as required by IAS 16. These judgements have been based on past history of the expected future economic benefits to be derived from the assets.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent expenditure relating to an item of property and equipment is capitalised when it is probable that future economic benefits from the use of the asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit for the year in the statement of comprehensive income in the year that the asset is derecognised.

5 Impairment of non-financial assets

The carrying amounts of the group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that are independent from other assets and groups. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in profit for the year in the statement of comprehensive income whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of its net selling price and its value in use.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill, a recognised impairment loss is not reversed.

6 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit for the year in the statement of comprehensive income net of any reimbursement.

7 Contingencies and commitments

Transactions are classified as contingencies where the group's obligations depend on uncertain future events and principally consists of third party obligations underwritten by the bank. Items are classified as commitments where the group commits itself to future transactions that will normally result in the acquisition of an asset.

8 Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, advances and other receivables, cash and cash equivalents, loans and borrowings and accounts payable.

A financial instrument is initially recognised when the group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial assets to another party without retaining control or substantially all the risks and rewards of the assets. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the group commits itself to purchase or sell the assets. Financial liabilities are derecognised if the group's obligations specified in the contract expire or are discharged or cancelled.

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at their fair value plus, in the case of financial assets and liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Accounting Policies *(continued)*

for the year ended 31 December 2009

Held to maturity investments

If the group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are subsequently measured at amortised cost.

Available-for-sale financial assets

The group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit for the year in the statement of comprehensive income.

Advances and other receivables

Advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the group does not intend to sell immediately or in the near term.

Advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective profit rate (EPR) method except when the group designates the advances at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EPR. The losses arising from impairment are recognised in profit for the year in the statement of comprehensive income.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for as available-for-sale investments. Dividend income is recognised in profit or loss when the group becomes entitled to the dividend.

Fair value measurement

The determination of fair value of financial assets and financial liabilities is based on quoted market prices or dealer quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques which include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist and valuation models. The group uses widely recognised valuation models for determining fair value of common and more simple financial instruments where inputs into models are market observable.

For more complex instruments, the group uses proprietary models which are usually developed from recognised valuation models. Some or all of the inputs into these models may not be market observable and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price.

This initial difference, usually an increase in fair value indicated by valuation techniques is recognised in profit for the year depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable. The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, liquidity risks as well as other factors. These adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the statement of financial position.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future cash flows, discounted at the market rates at the reporting date. After initial measurement, financial liabilities are measured at amortised cost using the effective profit rate method.

Guarantees

In the ordinary course of business, the bank issues guarantees, consisting of letters of credit, letters of guarantees and confirmations. These guarantees are disclosed at fair value.

9 Impairment of financial assets

At each reporting date the group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant financial assets or cash-generating units found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets or cash generating units that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar characteristics. In respect of advances refer to note 2 for use of estimates and judgements.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an advance by the group on terms that the group would otherwise not consider, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of debtors or issuers in the group or economic conditions that correlate with defaults in the group.

Advances are stated after the deduction of specific and portfolio impairments.

Specific impairments represent the quantification of incurred losses from separately identified non-performing advances. The amount of specific impairment raised is the amount needed to reduce the carrying value of the asset to the expected ultimate net realisable value, taking into account the financial status of the underlying client and any security in place for the advances. The impairment is raised through an allowance account and the amount of the loss is recognised in profit for the year in the statement of comprehensive income.

In assessing the net realisable value, the expected future cash flows from advances are discounted to their present value at their original effective mark-ups.

Portfolio impairments cover losses which, although not specifically identified, are present in any portfolio of advances. The amounts required to fund the assessed level of provisions are recognised in profit for the year in the statement of comprehensive income.

Accounting Policies *(continued)*

for the year ended 31 December 2009

10 **Income tax expense**

Income tax expense on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit for the year except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment of tax payable for previous years.

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

11 **Revenue recognition**

Income from Islamic activities

Income from Islamic activities comprises:

- Income earned from advances being profits attributable to the purchase and sale of moveable and immoveable property, manufacturing materials and finished products in terms of Musharaka or Murabaha arrangements. The profit is recognised over the period of each transaction either on the straight line or reducing balance basis, depending on the nature of the transaction;
- Income earned from equity finance transactions being profits attributable to the purchase and sale of equities in terms of Murabaha arrangements. The profit is recognised over the period of each transaction on the straight line basis;
- Fee and commission income for services rendered to customers. The income is recognised when earned; and
- Other operating income relating mainly to rental income earned on properties and tank containers.

Non-Islamic income

The group does not, as a policy, engage in any activities that involve usury. However, any non-Islamic income earned by the company, due to circumstances beyond its control, is transferred to the welfare and charitable fund. Fair value gains and losses on treasury bills are regarded as non-Islamic income and are therefore transferred to the charity and welfare fund. Non-Islamic income is reported net of these transfers on the face of the statement of comprehensive income.

Dividend income

Dividends are recognised when the right to receive payment is established.

12 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of return on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Group as a lessor

Leases where the group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

13 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise short-term negotiable securities, cash and short-term funds.

14 Employee benefits

Defined contribution plan

Obligations for contribution to defined contribution pension plans are recognised as an expense in profit for the year in the statement of comprehensive income as incurred.

Accounting Policies *(continued)*

for the year ended 31 December 2009

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related time of service is provided.

15 *Earnings per share*

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

16 *Related parties*

A party is related to the company if any of the following are met:

- Directly, or indirectly through one or more intermediaries, the party controls, is controlled by or is under common control with the company;
- It is a joint venture or an associate;
- The party is a member of the key management personnel of the entity or its parent; and
- The party is a close member of the family of any individual referred to above.

Close family member of the family of an individual includes:

- The individual's domestic partner and children;
- Children of the individual's domestic partner; and
- Dependents of the individual or the individual's domestic partner.