

Notes to the Financial Statements

for the year ended 31 December 2009

1 Capital adequacy

Introduction

Albaraka Bank Limited is subject to regulatory capital adequacy requirements under Basel II in terms of the Banks Act, No. 94 of 1990, as amended and Regulations relating thereto.

The bank has a wholly-owned subsidiary, which is a property owning company. The subsidiary is consolidated for accounting purposes and group annual financial statements are prepared annually but it is not consolidated for regulatory purposes in accordance with the requirements of the Banks Act and Regulations.

Funds owned by the bank are subject to South African Exchange Control Regulations.

Capital structure

The capital base of the bank provides the foundation for financing, off-balance sheet transactions and other activities. The capital adequacy of the bank is measured in terms of the Banks Act, which dictates the requirements on how the bank must maintain a minimum level of capital based on its risk adjusted assets and off-balance sheet exposures as determined by the provisions of Basel II.

At 31 December 2009 the minimum regulatory capital requirement of the bank was 9,75% (2008 : 9,75%) of risk-weighted assets. The capital structure of the bank was as follows:

Regulatory capital	2009	2008
Tier 1	R'000	R'000
Share capital	150 000	150 000
Investment risk reserve	2 605	2 605
General credit risk reserve	600	600
Regulatory credit risk reserve	10 656	10 656
Retained income	64 419	52 995
Total capital and reserves	228 280	216 856
Less: Regulatory credit risk reserve	(10 656)	(10 656)
Total Tier 1 capital	217 624	206 200
Tier 2		
Portfolio impairment (net of deferred tax)	5 328	6 051
Total eligible capital	222 952	212 251
Capital adequacy ratios (Tier 1 %)	12,5%	14,0%
Capital adequacy ratios (Total %)	12,8%	14,4%

Notes to the Financial Statements *(continued)* for the year ended 31 December 2009

The bank's capital strategy plays an important role in growing shareholder value, and has contributed significantly to growth in the current year. The objectives of active capital management are to:

- Enable growth in shareholder value; and
- Protect the capital base.

The bank's risk and capital management committee is responsible for the formulation, implementation and maintenance of the bank's capital management framework in order to achieve the above objectives and operates in terms of a board-approved capital management framework. It assists the board in reviewing the bank's capital requirements and management thereof.

The bank is committed to maintaining sound capital and strong liquidity ratios. The overall capital needs are continually reviewed to ensure that its capital base appropriately supports current and planned business and regulatory capital requirements.

In assessing the adequacy of the bank's capital to support current and future activities, the group considers a number of factors, including:

- An assessment of growth prospects;
- Current and potential risk exposures across all the major risk types;
- Sensitivity analysis of growth assumptions;
- The ability of the bank to raise capital; and
- Peer group analysis.

At 31 December 2009, the bank's capital requirements and risk-weighted assets for credit risk, equity risk, market risk and other assets as calculated under the standardised approach, and for operational risk as calculated under the basic indicator approach, in terms of the Banks Act and Regulations were as follows:

	Capital requirements		Risk-weighted assets	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Credit risk	138 859	120 858	1 424 198	1 239 575
Operational risk	17 477	14 692	179 250	150 691
Equity risk	1 381	5 136	14 172	52 678
Market risk	443	184	4 550	1 888
Other	11 153	3 000	114 391	30 771
	169 313	143 870	1 736 561	1 475 603

2 Risk management and assessment

Whilst the board is ultimately responsible for risk management and to determine the type and level of risk which the bank is willing to accept in conducting its banking activities, the effective management of risk has been delegated to four board committees, namely, the risk and capital management committee, the audit committee, the credit committee, and the directors' affairs committee.

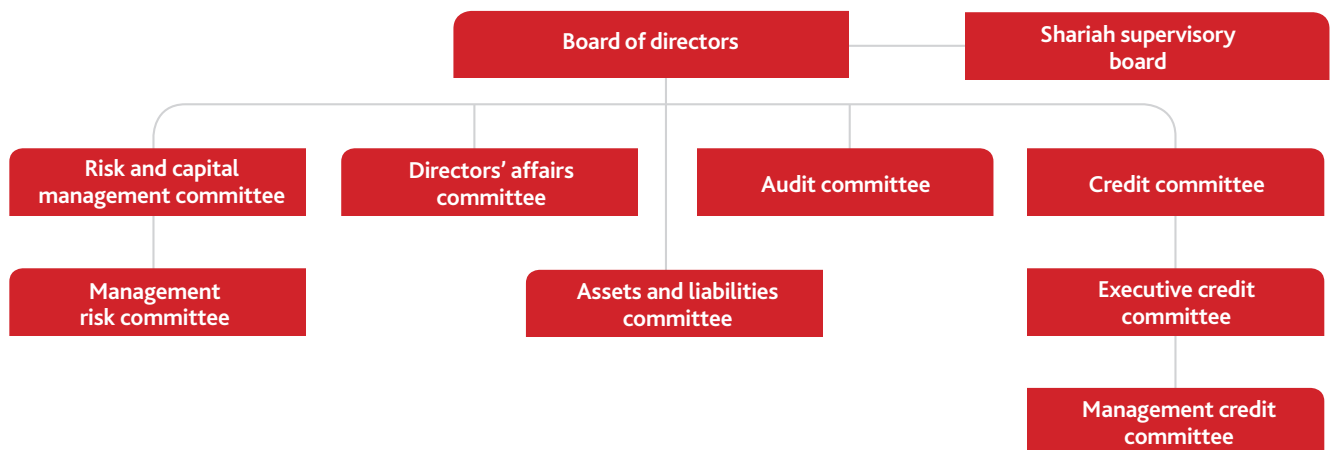
These committees are assisted by management committees (more particularly the assets and liabilities committee (ALCO), the executive credit committee and the management risk committee) to discharge their responsibilities effectively.

The composition, terms of reference and delegated powers of authority of the board and management committees are set by the board and are reviewed annually.

The board and management committees are responsible for developing and monitoring risk management policies and programmes in their specified areas. These policies and programmes are established to identify and analyse risks faced by the bank, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The risk management policies and programmes are reviewed regularly to reflect changes in market conditions and products offered.

In addition, the bank has adopted a strategy that seeks to entrench at all levels within Al Baraka Bank a culture that is risk-management-oriented.

The structure and organisation of the risk management function is provided in diagrammatic form below:



Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

The audit committee and risk and capital management committee are responsible for monitoring compliance with the risk management policies and programmes and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. The audit committee is assisted in these functions by internal audit which undertakes regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

Major risks

The following are the major forms of risks to which the bank is exposed:

- Credit risk;
- Market risk;
- Equity risk;
- Liquidity risk;
- Profit rate risk;
- Shariah risk;
- Operational risk;
- Compliance risk; and
- Other risk.

2.1 Credit risk

Credit risk refers to the potential loss that the bank could sustain as a result of counter-party default and arises principally from advances to customers and other banks and investment securities.

The bank manages its credit risk within a governance structure supported by delegated powers of authority as approved by the board. The credit approval process is graduated, whereby increasingly higher levels of authorisation are required depending on the type and value of the transactions concerned. Applications for credit may therefore be considered progressively by line management, senior and executive management, the management credit committee, the executive credit committee, the board credit committee and the board itself.

A separate credit division, reporting to the chief executive and the credit committee of the board, is responsible for the oversight of the bank's credit risk, including:

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk;
- Limiting concentrations of exposure to counter-parties and by product; and
- Developing and maintaining risk gradings in order to categorise exposures to the degree of risk of financial loss faced and to focus management on the relevant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework is described under the section dealing with portfolio measures of risk.

Credit exposures are monitored primarily on performance. Defaulting accounts receive prompt attention. Initially they are dealt with by line management and, in instances where further degeneration occurs, they are handed over to the bank's collections and legal specialists. Depending on the type of credit exposure, account reviews, which include the re-performance of qualitative and quantitative assessments, are performed annually.

The credit risk management process needs to identify all risk factors to enable such risks to be quantified and their impact on the pricing or credit risk to be taken into account. Pricing for credit risk is, therefore, a critical component of the risk management process. The main

risk of default by the counter-party is mitigated by means of collateral security obtained from the debtor concerned.

For internal risk management and risk control purposes, credit risk is measured in terms of potential loss that could be suffered, taking into account the quantum of the exposures, the realisable value of the collateral security and the value, if any, that could be placed on the sureties.

The executive and board credit committees constantly monitor the credit quality of counter-parties and the exposure to them. Detailed risk reports are submitted to the aforementioned committees and also to the management credit committee on a regular basis.

Portfolio measures of credit risk

Credit loss expense is reported in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Under these rules, losses are recognised and charged to the profit for the year in the statement of comprehensive income in the period in which they arise.

The occurrence of actual credit losses is erratic in both timing and amount and those that arise usually relate to transactions entered into in previous accounting periods. In order to make the business accountable for any credit losses suffered in a portfolio of advances that have not yet been individually identified as impaired, a credit impairment for incurred but not reported losses is created, based on historic loss and estimated emergence patterns. Based on the performance of individual customers and the results of assessments performed, credit exposures are classified under five main categories, or risk gradings, which are Standard, Special Mention, Sub-standard, Doubtful and Loss.

- Exposures that are current and where full repayment of the principal and profit is expected are classified under the Standard category;
- Exposures where evidence exists that the debtor is experiencing some difficulties that may threaten the bank's position, but where ultimate loss is not expected - but could occur if adverse conditions continue - are classified under the Special Mention category;
- Exposures that show underlying, well-defined weaknesses that could lead to probable loss if not corrected are classified under the Sub-standard category. The risk that such exposures may become impaired is probable and the bank relies to a large extent on available security;
- Exposures that are considered to be impaired, but are not yet considered total losses because of some pending factors that may strengthen the quality of such exposures are classified under the Doubtful category;
- Exposures that are considered to be uncollectable and where the realisation of collateral and institution of legal proceedings have been unsuccessful are classified under the Loss category. These exposures are considered to be of such little value that they should no longer be included in the net assets of the bank; and
- Exposures that are classified under the Sub-standard, Doubtful and Loss categories are regarded as non-performing.

Exposures that have not met their individual repayment terms are classified as past due exposures.

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The bank considers that the obligor is unlikely to pay its credit obligations to the bank, without recourse by the bank to actions such as realising security (if held); and
- The obligor is past due more than 90 days on any material credit obligation to the bank.

Credit impairments

Impairments for credit losses are accounted for in terms of IAS 39. The bank's policy with regard to the impairment of advances is as disclosed under Accounting Policy 9.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

Credit exposures	Group and company	
	2009	2008
	R'000	R'000
Advances to customers	1 592 767	1 412 435
Advances to banks	480 028	205 083
Cash and cash equivalents (excluding cash on hand)	190 805	184 811
Investment securities - available-for-sale	3 935	3 372
- held to maturity	2 600	2 600
Letters of credit, guarantees and confirmations	22 525	37 049
Total exposure	2 292 660	1 845 350
Impairment of advances	(17 092)	(15 560)
Net exposure	2 275 568	1 829 790

The group monitors concentrations of credit risk by geographical location, industry and product distribution.

Analysis of concentration of credit risk

Geographical distribution of exposures

KwaZulu-Natal	958 260	860 543
Gauteng	1 120 757	830 741
Western Cape	213 643	154 066
Total exposure	2 292 660	1 845 350

Industry distribution of exposures

Banks and financial institutions	670 833	389 894
Individuals	417 464	380 733
Other services	1 204 363	1 074 723
Total exposure	2 292 660	1 845 350

	Group and company	
	2009	2008
	R'000	R'000
Credit exposures		
Product distribution analysis		
Property (Musharaka and Murabaha)	1 071 083	920 612
Equity finance	480 028	205 083
Instalment sales	295 107	277 933
Trade	224 197	213 890
Cash with banks and central banks	190 805	184 811
Investment in unit trust	3 935	3 372
Investment in unlisted property owning company	2 600	2 600
Letters of credit	19 733	4 923
Guarantees and confirmations	2 792	32 126
Other	2 380	-
Total exposure	<u>2 292 660</u>	<u>1 845 350</u>
Residual contractual maturity of book		
Within 1 month		
- equity finance	52 600	64 597
- other	319 150	295 738
From 1 to 3 months		
- equity finance	72 715	114 026
- other	137 228	160 843
From 3 months to 1 year		
- equity finance	354 713	26 460
- other	280 990	259 306
From 1 year to 5 years	764 167	670 635
More than 5 years	311 097	253 745
Total exposure	<u>2 292 660</u>	<u>1 845 350</u>

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

	Group and company							
	Advances to customers		Advances to banks		Other exposures		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Past due and individually impaired								
Standard category	251	-	-	-	-	-	251	-
Special mention category	1 723	187 095	-	-	-	-	1 723	187 095
Sub-standard category	2 533	18 694	-	-	-	-	2 533	18 694
Doubtful category	3 779	12 915	-	-	-	-	3 779	12 915
Loss category	19 905	4 260	-	-	-	-	19 905	4 260
Gross amount	28 191	222 964	-	-	-	-	28 191	222 964
Specific impairment	(9 692)	(7 156)	-	-	-	-	(9 692)	(7 156)
Carrying amount	18 499	215 808	-	-	-	-	18 499	215 808
Past due but not impaired								
Standard category	194 820	178 441	-	-	-	-	194 820	178 441
Special mention category	210 518	-	-	-	-	-	210 518	-
Sub-standard category	16 550	-	-	-	-	-	16 550	-
Doubtful category	7 719	-	-	-	-	-	7 719	-
Loss category	2 933	-	-	-	-	-	2 933	-
Carrying amount	432 540	178 441	-	-	-	-	432 540	178 441
Neither past due nor impaired								
Standard category	1 132 036	1 011 030	480 028	205 083	219 865	227 832	1 831 929	1 443 945
Carrying amount	1 132 036	1 011 030	480 028	205 083	219 865	227 832	1 831 929	1 443 945
Total carrying amount before portfolio impairment	1 583 075	1 405 279	480 028	205 083	219 865	227 832	2 282 968	1 838 194
Portfolio impairment - Standard category	(7 400)	(8 404)	-	-	-	-	(7 400)	(8 404)
Net carrying amount	1 575 675	1 396 875	480 028	205 083	219 865	227 832	2 275 568	1 829 790

The bank holds collateral against advances to customers in the form of mortgage interests over property or other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of the advance, and

are updated for commercial property and residential property supporting a revolving facility which are assessed on a three-year interval based on independent valuations. In other instances collateral is re-assessed when an advance is individually assessed as impaired. Collateral is generally not held over advances to banks.

The maximum exposure to credit risk is calculated as being the maximum amount payable by customers, banks and other financial institutions (refer to note 24).

	Group and company	
	2009	2008
	R'000	R'000
Estimated fair value of collateral and other security enhancements	1 262 658	1 075 346
A distribution analysis of past due advances impaired and not impaired is disclosed below:		
Past due and individually impaired		
- Individuals	12 135	40 422
- Other customers	16 056	182 542
	28 191	222 964
Past due but not impaired		
- Individuals	108 348	69 078
- Other customers	324 192	109 363
	432 540	178 441

An aging analysis of past due advances but which have not been impaired is disclosed below:

	Group and company									
	Less than 30 days		30 to 60 days		60 to 180 days		Greater than 180 days		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Individuals	76 008	51 938	25 888	17 104	3 290	-	3 162	-	108 348	69 042
Other customers	276 443	89 642	39 411	19 757	7 101	-	1 237	-	324 192	109 399
	352 451	141 580	65 299	36 861	10 391	-	4 399	-	432 540	178 441

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

2.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate resulting in losses due to movements in observable market variables, such as profit rates, exchange rates and equity markets. In addition to these and other general market risk factors, the risk of price movements specific to individual issuers of securities is considered market risk. Al Baraka Bank's exposure to market risk is limited in that the bank does not trade in marketable securities other than those that it is required to hold for liquid asset purposes, which are usually held to maturity, investments in unit trusts, which are held as available-for-sale and foreign currency, held in terms of its limited foreign exchange licence. The price risk on the investment in unit trusts is subject to regular monitoring by management and the board, but is not currently significant in relation to the overall results and financial position of the group. The bank has obtained an Authorised Dealer with Limited Authority (ADLA) licence to deal in foreign bank notes for travel purposes only and trades out of three branches in the Republic. Under that licence the bank's maximum foreign cash holdings per outlet is restricted to fifty thousand United States dollars. Cash holdings are monitored daily and fluctuations in foreign currency exchange rates have no significant impact to the overall results of the group.

The bank's exposure to market risk at year end is tabled below:

	2009	2008
	R'000	R'000
Assets held under interest rate risk - Treasury bills	77 043	68 308
Assets held under market rate risk - Investment in unit trust	3 935	3 372
Assets held under exchange rate risk - Foreign currency held	365	150
	81 343	71 830

2.3 Equity risk

Equity risk relates to the risk of loss that the bank would suffer due to material fluctuations in the fair values of equity investments. Equity risk is limited in the case of Al Baraka Bank to its 100% investment in Albaraka Properties (Proprietary) Limited, a property owning subsidiary, which sole assets are the properties held in Athlone (Cape Town) and Kingsmead (Durban), both occupied by the bank. In addition, the bank owns 9,4% of Kiliminjaro Investment Limited, a property holding company which owns a property in Durban. The fair values of the underlying properties are obtained by an independent valuation on a periodic basis and compared to the cost of these investments to identify any need for impairment.

2.4 Liquidity risk

Liquidity risk relates to the potential inability to repay deposits, fund asset growth or to service debt or other expense payments. Liquidity risk is managed mainly by ensuring that the funding of the bank is sourced from a wide range of retail deposits with an appropriate spread of short, medium and long-term maturities. Exposure to large deposits is strictly controlled. ALCO monitors and reviews the maturity profiles of the bank's assets and liabilities on a regular basis to ensure that appropriate liquidity levels are maintained to meet future commitments.

The bank also has a policy of maintaining liquidity buffers (in the form of Treasury Bills and cash surpluses held on call) comfortably in excess of regulatory requirements.

Refer to note 24 for details relating to liquidity risk management.

2.5 Profit rate risk

The bank is not exposed to interest rate risk. In keeping with Islamic banking principles the bank does not levy interest on finance provided to debtors, but instead earns income either by means of buying the item to be financed from the supplier and on-selling the item to the bank's clients at an agreed mark-up or by entering into arrangements with the debtor in terms of which the bank shares in the profit generated by the debtor at an agreed profit sharing ratio. In a similar fashion, the bank's depositors do not earn interest on deposits placed with the bank, but instead earn income on their deposits based on their proportionate share of the profits earned from customers by the bank. There is no mis-match in terms of the earning profile of depositors and that of the bank. As the mark-up and profit sharing ratios are fixed, the bank is not subject to the risk of fluctuations in the fair value or cash flows as a result of these instruments.

2.6 Shariah risk

Shariah risk relates to the possibility that the bank may enter into or conclude transactions that may not be compliant with Islamic banking principles. It also relates to the risk of non-compliance with the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) Standards, to which the bank subscribes. In this regard, Shariah risk is closely linked to and embraces the following risks:

- Reputational risk;
- Profit rate risk;
- Liquidity risk; and
- Market risk.

Shariah risk is managed by monitoring, reviewing and supervising the activities of the bank to ensure that Shariah procedures, as prescribed by the Shariah Supervisory Board, are implemented and adhered to. The bank seeks to manage and minimise its exposure to Shariah risk by ensuring that the following measures are effectively implemented:

- The employment of adequate resources to manage and effectively mitigate, to the fullest possible extent, risk which could compromise Shariah compliance;
- Shariah reviews are carried out appropriately, and in a timely manner in accordance with Shariah Supervisory Board policies and plans;
- Confirmation that profits earned from clients and profits paid to depositors are strictly in accordance with Shariah principles;
- Profit distribution is managed by the bank in accordance with Shariah guidelines, as defined by the Shariah Supervisory Board;
- Obtaining written Shariah Supervisory Board approval prior to the implementation of any new product or service and any proposed amendment to an existing bank product;
- The disposal of non-permissible income in terms of Shariah Supervisory Board rulings;
- The effective management and/or investment, in a Shariah-compliant manner, of excess liquidity; and
- The employment of a programme of continuous update by the bank of new developments, changes and amendments as regards AAOIFI Shariah standards.

2.7 Operational risk

Operational risk refers to those risks that do not have a direct financial impact as opposed to the pure financial risks, such as liquidity risk, credit risk and profit rate risk. Operational risk is the risk of loss that could arise as a result of breakdowns in internal controls and processes, system inefficiencies, theft and fraud.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

The bank seeks to minimise its exposure to operational risk by various means, including the following:

- The establishment of an independent compliance function to monitor compliance with relevant laws and regulations and to facilitate compliance awareness within the bank;
- The establishment of board and management risk committees;
- The establishment of an independent internal audit function;
- The compilation of board-approved delegated powers of authority;
- The compilation of a policies and procedures manual;
- The provision of staff training (including fraud awareness programmes) and ensuring that they are well versed with the bank's policies and procedures;
- Implementing comprehensive security measures to protect the bank's staff and to safeguard the bank's assets; and
- The establishment of a comprehensive insurance programme to protect itself against material losses that may arise.

2.8 Compliance risk

Compliance risk refers to the risk that the bank could be exposed to for non-compliance with statutory, regulatory and supervisory requirements. These risks are addressed in the compliance report.

2.9 Other risk

Other risk relates to the bank's investment in fixed assets, moveable assets and other sundry assets.

3 Property and equipment

Cost

	Group		Company	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
Land and buildings	74 385	45 693	63 444	-
Vehicles	2 126	1 676	2 126	1 676
Equipment and computers	56 601	35 243	56 601	35 243
Leasehold improvements	7 588	5 767	7 588	5 767
Tank containers	7 145	7 145	7 145	7 145
	147 845	95 524	136 904	49 831
Accumulated depreciation and impairment	(32 742)	(27 650)	(33 447)	(27 650)
Land and buildings	-	-	(705)	-
Vehicles	(683)	(523)	(683)	(523)
Equipment and computers	(23 434)	(19 753)	(23 434)	(19 753)
Leasehold improvements	(4 958)	(4 014)	(4 958)	(4 014)
Tank containers	(3 667)	(3 360)	(3 667)	(3 360)
	115 103	67 874	103 457	22 181

	Group		Company	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
Land and buildings comprise the following commercial properties and vacant land as described below:				
1. Commercial property in Cape Town described as Erf no. 33983 Cape Town in extent 610 square metres independently valued at R7,3 million (2008 : R7,3 million). The property is leased partly to the bank and partly to third parties. The leases contain an initial non-cancellable period of three years.	3 655	3 655		
2. Vacant land in Durban described as Portion 6 of Erf 12445 Durban, Registration Division FV, Province of KwaZulu-Natal, in extent 3 316 square metres. The land was independently valued at R6,9 million in 2008. The land is in the process of being developed by way of construction of office premises to be leased on completion partly to the bank and partly to third parties. Development costs incurred to 31 December 2008 amounted to	-	3 500		
3. Commercial property in Durban described as Portion 6 of Erf 12445 Durban, Registration Division FV, Province of KwaZulu-Natal, in extent 3 316 square metres. The property is leased to the bank. The leases contain an initial non-cancellable period of 10 years. The property was independently valued at R72 million. Commercial property comprises land at a cost of R3,5 million and buildings thereon at a cost of R67,2 million.	70 730	-		
4. Land and buildings held under finance leases comprise Portion 6 of Erf 12445 Durban, Registration Division FV, Province of KwaZulu-Natal, in extent 3 316 square metres. The property is measured at the present value of the minimum lease payments and is fully depreciated over the period of the lease. In determining the fair value of the property, the minimum lease payments were discounted taking into consideration an unguaranteed residual of R72 million and calculating a rate intrinsic in the lease of 14,3%.			63 444	-
	74 385	45 693	63 444	-
Carrying value at beginning of year	45 693	16 904	-	-
Additions	28 692	28 789	63 444	-
	74 385	45 693	63 444	-

The residual value of buildings on a group basis exceeds their cost and hence no depreciation has been provided on buildings.

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	Group		Company	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
Included in equipment and computers is an amount of R16,2 million in respect of capital work in progress which represents the installation of the Equation computer system.				
Carrying value at beginning of year	7 640	-	7 640	-
Additions	8 572	7 640	8 572	7 640
	16 212	7 640	16 212	7 640

Movement in property and equipment	Land and buildings	Vehicles	Equipment and computers	Leasehold improvements	Tank containers	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Group						
2009						
Net carrying value at beginning of year	45 693	1 153	15 490	1 753	3 785	67 874
Additions	28 692	683	21 468	1 821	-	52 664
Disposals	-	(102)	(44)	-	-	(146)
Depreciation for the year	-	(291)	(3 168)	(944)	(307)	(4 710)
Impairment for the year	-	-	(579)	-	-	(579)
Net carrying value at end of year	74 385	1 443	33 167	2 630	3 478	115 103
2008						
Net carrying value at beginning of year	16 904	879	9 612	2 074	4 092	33 561
Additions	28 789	488	9 829	437	-	39 543
Disposals	-	(23)	(117)	-	-	(140)
Depreciation for the year	-	(191)	(3 834)	(758)	(307)	(5 090)
Net carrying value at end of year	45 693	1 153	15 490	1 753	3 785	67 874

Movement in property and equipment	Land and buildings	Vehicles	Equipment and computers	Leasehold improvements	Tank containers	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Company						
2009						
Net carrying value at beginning of year	-	1 153	15 490	1 753	3 785	22 181
Additions	63 444	683	21 468	1 821	-	87 416
Disposals	-	(102)	(44)	-	-	(146)
Depreciation for the year	(705)	(291)	(3 168)	(944)	(307)	(5 415)
Impairment for the year	-	-	(579)	-	-	(579)
Net carrying value at end of year	62 739	1 443	33 167	2 630	3 478	103 457
2008						
Net carrying value at beginning of year	-	879	9 612	2 074	4 092	16 657
Additions	-	488	9 829	437	-	10 754
Disposals	-	(23)	(117)	-	-	(140)
Depreciation for the year	-	(191)	(3 834)	(758)	(307)	(5 090)
Net carrying value at end of year	-	1 153	15 490	1 753	3 785	22 181

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

Group		Company	
2009	2008	2009	2008
R'000	R'000	R'000	R'000

4 *Investment in and amount due by subsidiary company*

Albaraka Properties (Proprietary) Limited is 100% (2008 : 100%) owned by Albaraka Bank Limited.

The issued share capital of Albaraka Properties (Proprietary) Limited comprises 100 shares of R1 each (2008 : 100 shares of R1 each).

Shares at cost

* *

Due by subsidiary

7 636 47 374

Loan account

71 440 47 374

Finance lease liability (note 25.2)

(63 804)

Impairment losses

- (668)

7 636 46 706

* Amount less than R1 000

The amount due by the subsidiary is profit-free.

The finance lease liability has been set off against the loan account as the bank has a legally enforceable right to set off these amounts in terms of the lease contract and intends to realise the asset and settle the liability simultaneously. The remaining balance is repayable on demand.

5 *Deferred tax asset*

Balance at beginning of year

6 325 4 549 6 144 4 368

Transfers from profit for the year

861 1 788 1 237 1 788

Transfers from/(to) welfare and charitable fund

7 (12) 7 (12)

Balance at end of year

7 193 6 325 7 388 6 144

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
The deferred tax asset comprises the following:				
Impairment loss in subsidiary			-	104
Temporary differences arising on finance lease			298	-
Deferred tax on accumulated losses in subsidiary	4 063	104		
Fair value adjustments for financial instruments	339	469	339	469
Impairment losses for doubtful advances	2 036	1 503	2 036	1 503
Other provisions	4 967	4 016	4 967	3 835
Prepaid expenses	(159)	(159)	(160)	(159)
Plant and equipment	(4 053)	388	(92)	388
Unrealised loss on revaluation of foreign exchange	-	4	-	4
	7 193	6 325	7 388	6 144

The expected manner of recovery of the deferred tax asset will be through the use thereof at tax rates applicable to companies at the time of such recovery.

6 *Investment securities*

Unit trust investments

402 755 (2008 : 393 967) units in Futuregrowth Albaraka Equity Fund

At cost	5 108	5 034	5 108	5 034
Fair value adjustment	(1 173)	(1 662)	(1 173)	(1 662)
	3 935	3 372	3 935	3 372
Unlisted investments				
Kiliminjaro Investment Limited, at cost	2 600	2 600	2 600	2 600
	6 535	5 972	6 535	5 972

Kiliminjaro Investment Limited is a property owning company of which the bank owns 9,4% (2008 : 9,9%).

The directors are of the opinion that the fair value of the company's investment in Kiliminjaro Investment Limited approximates the cost.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

	Group		Company	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
7 Advances and other receivables				
7.1 Sectoral analysis				
Advances to customers				
Property (Musharaka and Murabaha)	1 071 083	920 612	1 071 083	920 612
Instalment sale	295 107	277 933	295 107	277 933
Trade	224 197	213 890	224 197	213 890
Other	2 380	-	2 380	-
Gross advances to customers	1 592 767	1 412 435	1 592 767	1 412 435
Impairment for doubtful advances	(17 092)	(15 560)	(17 092)	(15 560)
	1 575 675	1 396 875	1 575 675	1 396 875
Advances to banks				
Equity finance	480 028	205 083	480 028	205 083
Net advances	2 055 703	1 601 958	2 055 703	1 601 958
Other receivables	1 384	2 372	1 381	2 365
South African Revenue Service - income tax	1 639	-	1 392	-
- value added tax	178	-	-	-
	2 058 904	1 604 330	2 058 476	1 604 323

Included under property are Musharaka advances amounting to R970,9 million (2008 : R755,5 million).

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
7.2 Maturity analysis				
Advances to customers				
Within 1 month	125 018	105 254	125 018	105 254
From 1 month to 3 months	126 698	145 839	126 698	145 839
From 3 months to 1 year	272 322	242 934	272 322	242 934
From 1 year to 5 years	764 167	664 663	764 167	664 663
More than 5 years	304 562	253 745	304 562	253 745
	1 592 767	1 412 435	1 592 767	1 412 435
Equity finance				
Within 1 month	52 600	64 597	52 600	64 597
From 1 month to 3 months	72 715	114 026	72 715	114 026
From 3 months to 1 year	354 713	26 460	354 713	26 460
	480 028	205 083	480 028	205 083
7.3 Analysis of impairment for doubtful advances				
7.3.1 Specific impairments				
Balance at beginning of year	7 156	5 423	7 156	5 423
Charge to profit for the year	2 936	2 551	2 936	2 551
Bad debts written off	(400)	(818)	(400)	(818)
Balance at end of year	9 692	7 156	9 692	7 156
7.3.2 Portfolio impairment	7 400	8 404	7 400	8 404
Balance at beginning of year	8 404	7 776	8 404	7 776
(Release)/charge to profit for the year	(1 004)	628	(1 004)	628
	17 092	15 560	17 092	15 560
7.3.3 Impairment for credit losses				
Specific impairments	2 936	2 551	2 936	2 551
Portfolio impairments	(1 004)	628	(1 004)	628
Bad debts recovered	(809)	(822)	(809)	(822)
	1 123	2 357	1 123	2 357

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

	Group		Company	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
8 Cash and cash equivalents				
Cash on hand	2 096	1 344	2 096	1 344
Government and other stock	77 043	68 308	77 043	68 308
Funds at call	3 050	3 050	3 050	3 050
Balances with central bank	43 081	33 733	43 081	33 733
Placements with other banks	67 631	79 720	67 631	79 720
	192 901	186 155	192 901	186 155

The following banking facilities are available to the group:

Letters of credit and guarantees	20 100	20 104	20 100	20 104
Foreign exchange facilities	2 130	10 240	2 130	10 240
Settlement facilities	6 560	5 792	6 560	5 792
Working capital facility	1 090	1 000	1 090	1 000
	29 880	37 136	29 880	37 136

Deposits in the sum of R38,6 million are placed with the central bank for the purpose of reserve requirements and are therefore not available for use.

Funds at call are pledged with Rand Merchant Bank, to secure the acceptance of the bank's guarantees, for finance transactions entered into in the normal course of business with that institution.

9 Share capital and share premium

9.1 Authorised share capital

30 000 000 (2008 : 30 000 000) ordinary shares of R10 each	300 000	300 000	300 000	300 000
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9.2 Issued and fully paid share capital

15 000 000 (2008 : 15 000 000) ordinary shares of R10 each	150 000	150 000	150 000	150 000
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10 Reserves

	Group		Company	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Investment risk reserve	2 605	2 605	2 605	2 605
Retained income	64 992	52 995	64 419	52 995
General credit risk reserve	600	600	600	600
Regulatory credit risk reserve	10 656	10 656	10 656	10 656
	78 853	66 856	78 280	66 856

The investment risk and general credit risk reserves comprise amounts re-allocated out of retained income. Both reserves were created to ring fence exposures of the group.

The regulatory credit risk reserve was created in 2003 at the request of the South African Reserve Bank for additional provisioning purposes.

11 Welfare and charitable funds

Gross income from non-Islamic activities during the year	10 597	13 481	10 597	13 481
Normal tax thereon	(2 299)	(3 116)	(2 299)	(3 116)
Net income from non-Islamic activities during the year	8 298	10 365	8 298	10 365
Donations and advances	(16 480)	(10 388)	(16 480)	(10 388)
Balance at beginning of year	15 415	15 438	15 415	15 438
Balance at end of year	7 233	15 415	7 233	15 415

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

12 *Accounts payable*

	Group		Company	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
Sundry creditors	3 836	5 123	3 836	5 123
Accruals	11 028	6 294	7 358	6 085
South African Revenue Service	26	2 812	26	3 846
	14 890	14 229	11 220	15 054

Provision for leave pay is reflected under accruals as follows:

Balance at beginning of year	2 644	2 390	2 644	2 390
Raised during the year	1 252	254	1 252	254
Balance at end of year	3 896	2 644	3 896	2 644

13 *Deposits from customers*

Participation investment accounts	1 096 593	882 072	1 096 593	882 072
Savings accounts	206 971	185 412	206 971	185 412
Monthly investment plan	62 338	51 209	62 338	51 209
Haj investment scheme	66 808	56 779	66 808	56 779
Regular income provider	688 410	448 089	688 410	448 089
Debit card	2 860	-	2 860	-
Profits distributable to depositors	5 680	595	5 680	595
	2 129 660	1 624 156	2 129 660	1 624 156

Maturity analysis

Within 1 month	840 866	684 251	840 866	684 251
From 1 month to 3 months	503 061	377 250	503 061	377 250
From 3 months to 1 year	778 572	562 655	778 572	562 655
From 1 year to 5 years	7 161	-	7 161	-
	2 129 660	1 624 156	2 129 660	1 624 156

	Group		Company	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
14 Net non-Islamic income				
Net interest income	10 597	12 575	10 597	12 575
Other non-Shariah-compliant income	-	921	-	921
Fair value adjustment on Treasury Bills	-	(15)	-	(15)
	10 597	13 481	10 597	13 481
Amount transferred to welfare and charitable funds	(10 597)	(13 481)	(10 597)	(13 481)
	-	-	-	-
15 Fee and commission income				
Service fees	5 146	4 200	5 146	4 200
Commission received on sale of unit trusts	1 759	3 509	1 759	3 509
Foreign exchange gains	872	-	872	-
Management fee from subsidiary			200	200
Other management fees	-	60	-	60
Takafol insurance income	-	5	-	5
	7 777	7 774	7 977	7 974
16 Other operating income				
Property rental income	311	298	30	-
Tank container rental income	740	863	740	863
Surplus on disposal of property and equipment	55	118	55	118
Dividend income	436	180	436	180
Other	402	532	402	532
	1 944	1 991	1 663	1 693

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

	Group		Company	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
17 Operating expenditure				
Operating expenditure is stated after charging the following items:				
Auditor's remuneration				
Audit fees - current year	1 497	1 287	1 497	1 287
Fees for other services				
Advisory	130	-	130	-
Tax consultancy	56	259	45	259
Expenses	17	58	17	58
	1 700	1 604	1 689	1 604
Consultancy fees	1 111	1 180	1 087	1 180
Depreciation of property and equipment	4 710	5 090	5 415	5 090
Impairment of property and equipment	579	-	579	-
Impairment for losses in subsidiary			(668)	297
Operating lease charges	3 005	2 404	3 149	2 548
Loss of revaluation of foreign exchange	-	13	-	13
Staff costs	43 916	34 995	43 916	34 995
Directors' emoluments	5 444	4 819	5 444	4 819
Executive services	4 233	4 269	4 233	4 269
Non-executive directors' fees	1 211	550	1 211	550

		Salary	Bonus	Other benefits	Total
		R'000	R'000	R'000	R'000
17.1 Executive services					
2009					
SAE Chohan	- Chief executive	1 317	400	67	1 784
MG McLean	- Deputy chief executive	1 061	200	31	1 292
MJD Courtiade	- Financial director	920	200	37	1 157
		3 298	800	135	4 233
2008					
SAE Chohan	- Chief executive	1 387	400	177	1 964
MG McLean	- Deputy chief executive	980	200	38	1 218
MJD Courtiade	- Financial director	789	200	98	1 087
		3 156	800	313	4 269

The executive directors do not have any service contracts.

Other benefits are short-term in nature.

	Company	
	2009	2008
	R'000	R'000
17.2 Non-executive directors' fees		
AA Yousif	138	67
Adv. AB Mahomed SC	145	61
F Kassim	99	47
A Lambat	123	49
MS Paruk	205	85
YM Paruk	118	56
SA Randeree	134	64
OA Suleiman	140	61
M Youssef Baker	109	60
	1 211	550

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

	Group		Company	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
South African tax				
Normal				
- current year	5 878	13 132	5 878	13 132
- prior years	(3 859)	-	(3 859)	-
Attributable to income from non-Islamic activities (refer accounting policy 10 and note 14)	(2 299)	(3 116)	(2 299)	(3 116)
Deferred tax				
- current year	1 432	(1 259)	972	(1 259)
- prior years	(2 436)	(203)	(2 353)	(203)
- change in taxation rate	-	151	-	151
Secondary tax on companies	666	524	666	524
Taxation attributable to Islamic activities	(618)	9 229	(995)	9 229
Reconciliation of taxation charge	%	%	%	%
Effective tax rate	(3,5)	29,8	(5,9)	29,8
Secondary tax on companies	(3,7)	(1,7)	(4,0)	(1,7)
Adjustable items:				
Non-taxable income and non-deductible expenditure	0,9	(0,3)	1,0	(0,3)
Prior year adjustment current tax	21,7	-	22,9	-
Deferred tax adjustment - prior years	12,6	0,7	14,0	0,7
Change in taxation rate	-	(0,5)	-	(0,5)
	28,0	28,0	28,0	28,0

19 Earnings per share

Basic and diluted earnings per share are calculated on after tax income attributable to ordinary shareholders and a weighted average number of 15 000 000 (2008 : 15 000 000) ordinary shares in issue during the year (cents)

Group		Company	
2009	2008	2009	2008
R'000	R'000	R'000	R'000
122,6	144,9		

Headline earnings per share are calculated on headline earnings and a weighted number of 15 000 000 (2008 : 15 000 000) ordinary shares in issue during the year (cents)

122,3	144,1
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Headline earnings per share are derived from:

Profit for the year	18 395	21 729
Surplus arising on disposal of property and equipment	(55)	(118)
	18 340	21 611

20 Dividends

A dividend of 45 cents per share (2008 : 35 cents) was paid on 29 June 2009 to shareholders registered on the shareholders register of the bank at close of business on 12 June 2009.

6 750	5 250	6 750	5 250
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21 Statement of cash flows

21.1 Cash generated from operations

Profit before taxation	17 777	30 958	16 827	30 958
Adjustment for non-cash items:				
Depreciation of property and equipment	4 710	5 090	5 415	5 090
Impairment of property and equipment	579	-	579	-
Surplus arising on disposal of property and equipment	(55)	(118)	(55)	(118)
Straight-lining of operating lease	(71)	(125)	(71)	(125)
Impairment for losses in subsidiary			(668)	297
	22 940	35 805	22 027	36 102

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

	Group		Company	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
21.2 Changes in working capital				
Increase in deposits from customers	505 504	174 673	505 504	174 673
Increase/(decrease) in accounts payable	3 543	(1 625)	83	(1 831)
(Decrease)/increase in welfare and charitable funds	(5 883)	3 093	(5 883)	3 093
Increase in advances and other receivables	(452 935)	(126 391)	(452 761)	(126 388)
	50 229	49 750	46 943	49 547
21.3 Taxation paid				
Amount outstanding at beginning of year	(2 812)	(6 647)	(3 846)	(7 757)
Amount charged to profit for the year	(386)	(10 539)	(386)	(10 539)
Amount charged to welfare and charitable funds	(2 299)	(3 116)	(2 299)	(3 116)
Amount (receivable)/outstanding at end of year	(1 639)	2 812	(1 392)	3 846
	(7 136)	(17 490)	(7 923)	(17 566)
21.4 Dividends paid				
Amount outstanding at beginning of year	-	-	-	-
Dividends declared and paid	(6 750)	(5 250)	(6 750)	(5 250)
Amount outstanding at end of year	-	-	-	-
	(6 750)	(5 250)	(6 750)	(5 250)
21.5 Additions to property and equipment				
Land and buildings	(28 692)	(28 789)	(63 444)	-
Vehicles	(683)	(488)	(683)	(488)
Equipment and computers	(21 468)	(9 829)	(21 468)	(9 829)
Leasehold improvements	(1 821)	(437)	(1 821)	(437)
	(52 664)	(39 543)	(87 416)	(10 754)
22 Letters of credit, guarantees and confirmations				
Letters of credit - maximum value	19 733	4 923	19 733	4 923
Guarantees and confirmations - maximum value	2 792	32 126	2 792	32 126
	22 525	37 049	22 525	37 049

The above letters of credit, guarantees and confirmations are directly linked to the company's core activities and payments relating thereto will be made in the ordinary course of business.

23 Capital commitments

Authorised but not yet contracted for

Group		Company	
2009	2008	2009	2008
R'000	R'000	R'000	R'000
962	210	962	210

Authorised and contracted for

831	37 337	831	10 337
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The expenditure will be financed from funds on hand and generated internally.

24 Financial instruments

24.1 Credit risk management - maximum exposure to credit risk

Advances to customers (note 7.1)	1 592 767	1 412 435	1 592 767	1 412 435
Advances to banks (note 7.1)	480 028	205 083	480 028	205 083
Cash and cash equivalents (excluding cash on hand)	190 805	184 811	190 805	184 811
Letters of credit, guarantees and confirmations	22 525	37 049	22 525	37 049
	2 286 125	1 839 378	2 286 125	1 839 378

24.2 Currency risk management

The group's exposure to currency risk was as follows:

Cash and cash equivalents

EUR	4	-	4	-
GBP	6	4	6	4
SAR	3	-	3	-
USD	352	146	352	146
	365	150	365	150

24.3 Derivative instruments

The group did not trade in any derivative instruments during the year under review.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

24.4 Liquidity risk management

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

	Carrying amount R'000	Term to maturity				
		Within 1 month R'000	1 to 3 months R'000	3 months to 1 year R'000	1 to 5 years R'000	More than 5 years R'000
Group						
2009						
Assets						
Advances and receivables	2 058 904	160 704	199 413	630 058	764 167	304 562
Investment securities	6 535	-	-	-	-	6 535
Cash and cash equivalents	192 901	192 901	-	-	-	-
	2 258 340	353 605	199 413	630 058	764 167	311 097
Liabilities						
Deposits from customers	2 129 660	840 866	503 061	778 572	7 161	-
Accounts payable	14 890	13 476	1 010	217	187	-
Letters of credit, guarantees and confirmations	22 525	3 327	10 530	8 668	-	-
	2 167 075	857 669	514 601	787 457	7 348	-
Net liquidity gap	91 265	(504 064)	(315 188)	(157 399)	756 819	311 097
2008						
Assets						
Advances	1 601 958	169 852	259 865	253 833	664 663	253 745
Investment securities	5 972	-	-	-	5 972	-
Cash and cash equivalents	186 155	186 155	-	-	-	-
	1 794 085	356 007	259 865	253 833	670 635	253 745
Liabilities						
Deposits from customers	1 624 156	684 251	377 250	562 655	-	-
Accounts payable	14 229	10 188	456	3 585	-	-
Letters of credit, guarantees and confirmations	37 049	5 672	15 005	16 372	-	-
	1 675 434	700 111	392 711	582 612	-	-
Net liquidity gap	118 651	(344 104)	(132 846)	(328 779)	670 635	253 745

24.5 Market risk

The exposure to market risk is as follows:

Investment securities - available-for-sale
Investment securities - held to maturity

Group		Company	
2009	2008	2009	2008
R'000	R'000	R'000	R'000
3 935	3 372	3 935	3 372
2 600	2 600	2 600	2 600
6 535	5 972	6 535	5 972

24.6 Intrinsic rate risk

Loans and borrowings subject to intrinsic rate risk

Current portion

Obligations under finance leases (note 25.2)

Total current portion

Non-current portion

Obligations under finance leases (note 25.2)

Total non-current portion

Intrinsic Rate	Maturity	2009	2008
%		R'000	R'000
14,3%	2024	6 493	-
		6 493	-
14,3%	2024	57 311	-
		57 311	-

24.7 Accounting classification and fair values

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market profit rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed profit bearing deposits is based on discounted cash flows using prevailing money-market profit rates for debts with similar credit risk and maturity. For those notes issued where quoted market prices are not available, a discounted cash flow model is used, based on a current profit rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised. Set out overleaf is a comparison, by class, of the carrying amounts and fair values of the bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

Notes to the Financial Statements (continued)

for the year ended 31 December 2009

	Non- financial instruments	Advances and receivables	Available- for-sale	Held to maturity	Other amortised cost	Carrying amount	Fair value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Group							
2009							
Assets							
Advances and other receivables	3 201	2 055 703	-	-	-	2 058 904	2 058 904
Investment securities	-	-	3 935	2 600	-	6 535	6 535
Cash and cash equivalents	-	192 901	-	-	-	192 901	192 901
	3 201	2 248 604	3 935	2 600	-	2 258 340	2 258 340
Liabilities							
Deposits from customers	-	-	-	-	2 129 660	2 129 660	2 129 660
Accounts payable	-	-	-	-	14 890	14 890	14 890
	-	-	-	-	2 144 550	2 144 550	2 144 550
2008							
Assets							
Advances and other receivables	2 372	1 601 958	-	-	-	1 604 330	1 604 330
Investment securities	-	-	3 372	2 600	-	5 972	5 972
Cash and cash equivalents	-	186 155	-	-	-	186 155	186 155
	2 372	1 788 113	3 372	2 600	-	1 796 457	1 796 457
Liabilities							
Deposits from customers	-	-	-	-	1 624 156	1 624 156	1 624 156
Accounts payable	-	-	-	-	14 229	14 229	14 229
	-	-	-	-	1 638 385	1 638 385	1 638 385

24.8 Fair value hierarchy

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis by class of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Group				
2009				
Financial assets				
Financial investments available-for-sale				
- Unit trust investments	3 935	-	-	3 935
	<u>3 935</u>	<u>-</u>	<u>-</u>	<u>3 935</u>
Financial liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2008				
Financial assets				
Financial investments available-for-sale				
- Unit trust investments	3 372	-	-	3 372
	<u>3 372</u>	<u>-</u>	<u>-</u>	<u>3 372</u>
Financial liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements (continued)

for the year ended 31 December 2009

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the bank's estimate of assumptions that a market participant would make when valuing the instruments.

Financial investments – available-for-sale

Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Group		Company	
2009	2008	2009	2008
R'000	R'000	R'000	R'000

25 Leases

25.1 Leases as lessee

Operating leases

Non-cancellable operating lease rentals payable as follows:

Less than 1 year	1 307	1 816	1 307	1 816
Between 1 and 5 years	500	1 470	500	1 470
	1 807	3 286	1 807	3 286

Operating leases relate to building premises leased in South Africa.

2009		2008	
Minimum payments	Present value of payments	Minimum payments	Present value of payments

25.2 Leases as lessee - company

Finance leases

Less than 1 year	6 929	6 493	-	-
Between 1 and 5 years	33 722	22 133	-	-
More than 5 years	143 876	35 178	-	-
Total minimum lease payments	184 527	63 804	-	-
Less amounts representing finance charges	(120 723)		-	-
Present value of minimum lease payments - note 4	63 804	63 804	-	-

Albaraka Bank Limited has entered into a finance lease with its wholly-owned subsidiary, Albaraka Properties (Proprietary) Limited, for the use of its property as the bank's corporate head office. This lease is for an initial period of 10 years with a five year renewal option. Rentals are escalated annually at 8%. No purchase option exists. Renewals are at the option of the bank.

Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments, are stated on the preceding page. The rate intrinsic in the lease is 14,3% after considering the unguaranteed residual value of R72 million which will be realised at the end of the lease.

26 Retirement benefits

Albaraka Bank Limited contributes to the Albaraka Bank Provident Fund, a defined contribution plan. The Fund is registered under and governed by the Pension Funds Act, 1956, as amended. Employee benefits are determined according to each member's equitable share of the total assets of the Fund. The company's contribution for the year was R1,6 million (2008 : R1,4 million).

27 Related party information

The holding company of Albaraka Bank Limited at 31 December 2009 is Al Baraka Banking Group B.S.C., a company registered in the Kingdom of Bahrain and holds 56,3% (2008 : 53,6%) of the company's ordinary shares.

DCD Holdings (SA) (Proprietary) Limited and DCD London & Mutual Plc, a company incorporated in England and Wales, jointly hold 15,0% (2008 : 15,0%) of the company's ordinary shares.

The Iqraa Trust is a registered trust whose beneficiaries are charitable, welfare and educational institutions. The trust is one of various beneficiaries of the bank's charitable activities. Four of the bank's directors are also trustees of the trust.

The subsidiary of the company is identified as per note 4. The property rental paid to the subsidiary for the year amounted to R143 741 (2008 : R143 741). The bank made finance lease repayments amounting to R1 139 666 (2008 : Nil) for the year.

The remuneration paid to the directors is disclosed in note 17.

The management fee charged to the subsidiary is disclosed in note 15.

The Musharaka transactions are conducted on an arm's length competitive basis. The total amount advanced is as disclosed in note 7.

Albaraka Bank Limited enters into financial transactions, including normal banking relationships, with companies in which the directors of the bank have a beneficial interest. These transactions are governed by terms no less favourable than those arranged with third parties and are subject to the bank's normal credit approval policies and procedures.

Directors are required to declare their interest in such transactions and recuse themselves from participating in any meeting at which these matters are discussed. Any transactions, irrespective of size, have to be reviewed by the board.

In order to avoid conflicts of interest and with a view to ensuring transparency at all times, a register of directors' interests in companies containing the nature of such interests, as well as the nature and extent of the beneficial shares held in the companies is submitted to the board of directors annually for reviewing and updating. Direct interests are disclosed in the table overleaf:

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

	Balance outstanding	
	2009	2008
	R'000	R'000
Property finance - Musharaka and Murabaha		
Balance outstanding at beginning of year	7 747	7 293
Advances granted during the year	1 708	1 965
Repayments during the year	(4 015)	(2 544)
Profit earned	735	1 033
	6 175	7 747
Profit mark-up range for the year	5,0% - 14,0%	5,0% - 14,5%
The profit mark-up of 5% is in respect of advances to executive directors at subsidised rates which, at year end amounted to R803 589 (2008 : R932 434)		
Instalment sale		
Balance outstanding at beginning of year	2 838	911
Advances granted during the year	318	2 732
Repayments during the year	(1 433)	(1 091)
Profit earned	374	286
	2 097	2 838
Profit mark-up range for the year	10,0% - 15,0%	10,0% - 14,0%
Trade finance		
Balance outstanding at beginning of year	3 218	2 188
Advances granted during the year	6 707	11 117
Repayments during the year	(8 086)	(10 567)
Profit earned	333	480
	2 172	3 218
Profit mark-up range for the year	9,5% - 12,0%	13,5% - 14,5%

	Balance outstanding	
	2009	2008
	R'000	R'000
Iqraa Trust		
Balance owing by/(due to) the trust at beginning of year	172	(130)
Administration fees received	-	68
(Receipts)/payments processed on behalf of the trust net of recoveries	(173)	234
Balance (due to)/owing by the trust at end of year	(1)	172

During the year, the bank donated an amount of R11 974 068 (2008 : R7 157 241) to the trust.

At 31 December 2009 funds deposited by the trust with the bank amounted to R32 096 111 (2008 : R22 458 460).

Total exposure to related parties	10 443	13 975
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Staff advances are conducted at subsidised profit rates. The amount subject to the subsidised profit rate is dependent on the staff member's position within the entity.

The total staff advances outstanding at the end of the period amounted to	21 283	18 534
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28 Standards and interpretations not yet effective

At the date of authorisation of the annual financial statements for the year ended 31 December 2009, the following accounting standards and interpretations were in issue, but not yet effective:

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation is required for years commencing on or after 1 July 2009, but is not expected to be relevant to the activities of the group.

IFRIC 18 Transfer of Assets from Customers

This interpretation is required for such transactions occurring on or after 1 July 2009, but is not expected to be relevant to the activities of the group.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2009

28 Standards and interpretations not yet effective (continued)

IAS 27 Consolidated and Separate Financial Statements (Revised)

This revised standard is required for years commencing on or after 1 July 2009, but is not expected to have a significant impact on the current activities of the group.

IFRS 3 Business Combinations (Revised)

This revised standard is required for years commencing on or after 1 July 2009, but is not expected to have a significant impact on the current activities of the group.

IAS 39 and IFRS 7 Amendments for Re-classification of Financial Assets

These amendments are required for years commencing on or after 1 July 2009, but are not expected to have a material impact on the activities of the group.

IAS 39 Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

This amendment is required for years commencing on or after 1 July 2009, but is not expected to be relevant to the activities of the group.

Improvements to IFRS (April 2009)

The 2009 improvements mostly have an effective date of 1 January 2010, while the changes to IFRS 2, IAS 38 and IFRIC 9 have an effective date of 1 July 2009. These changes are not expected to have a material impact on the activities of the group.

IAS 32 Amendment for Classification of Rights Issues

This amendment is required for years commencing on or after 1 February 2010, but is not expected to be relevant to the activities of the group.

IFRS 1 Amendments for Additional Exemptions for First-time Adopters

This amendment is required for years commencing on or after 1 January 2010, but will not be relevant to the activities of the group.

IFRS 2 Amendments for Group Cash-settled Share-based Payment Transactions

This amendment is required for years commencing on or after 1 January 2010, but will not be relevant to the activities of the group.

IFRIC 14 Amendment for Prepayment of a Minimum Funding Requirement

This amended interpretation is required to be adopted for years commencing on or after 1 January 2011. This amendment is not expected to have any impact on the activities of the group as the group does not have any defined benefit plans.

IAS 24 Related Party Disclosure (Revised)

This revised standard is required for years commencing on or after 1 January 2011, but is not expected to have a significant impact on the activities of the group as it relates particularly to disclosures in the financial statements.

IFRS 9 Financial Instruments

This new standard is required to be adopted for years commencing on or after 1 January 2013. The impact of this new standard on the activities of the group has not yet been determined.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This new interpretation is required for years commencing on or after 1 July 2010, but is not expected to be relevant to the activities of the group.

29 *Adoption of new standards*

The following amendments to standards and new interpretations were adopted during the year, as they became effective for years commencing on or after 1 January 2009. These amended standards impacted the disclosure in the financial statements:

IAS 1	Presentation of Financial Statements
IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

The following amendments to standards and new interpretations were adopted during the year, but have had no material impact on the financial position and performance of the group.

IAS 23	Borrowing Costs
IFRS 1 and IAS 27	Amendments to IFRS 1 First-time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate Improvements to IFRS (May 2008).

The following new standards, amendments and new interpretations were not applied by the group as they are not considered to be applicable to the group's activities:

IFRS 8	Operating Segments
IFRS 2	Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations
IFRIC 15	Agreements for the construction of real estate
IAS 32 and IAS 1	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation
IFRIC 16	Hedges of a net investment in a foreign operation.