

# Notes to the Financial Statements

for the year ended 31 December 2010

## 1. Capital adequacy

### Introduction

Albaraka Bank Limited is a registered bank domiciled in South Africa and 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. The subsidiary is consolidated for regulatory purposes in accordance with Regulation 36(2) 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 2010, the minimum regulatory capital requirement of the bank was 9,75% (2009: 9,75%) of risk-weighted assets. The capital structure of the bank is tabled below:

	2010	2009
	R'000	R'000
<b>Regulatory capital</b>		
<b>Tier 1</b>		
Share capital	150 000	150 000
Investment risk reserve	-	2 605
General credit risk reserve	-	600
Regulatory credit risk reserve	-	10 656
Retained income	79 939	64 419
Total capital and reserves	229 939	228 280
Less: Regulatory credit risk reserve	-	(10 656)
Less: Prescribed deductions against capital and reserve funds	(22 713)	-
<b>Total Tier 1 capital</b>	<b>207 226</b>	<b>217 624</b>
<b>Tier 2</b>		
Portfolio impairment (net of deferred tax)	5 955	5 328
<b>Total eligible capital</b>	<b>213 181</b>	<b>222 952</b>
<b>Capital adequacy ratios (Tier 1 %)</b>	<b>9,9%</b>	<b>12,5%</b>
<b>Capital adequacy ratios (Total %)</b>	<b>10,1%</b>	<b>12,8%</b>

The bank's capital strategy plays an important role in growing shareholder value, and has contributed significantly to growth in the current year. The objective of active capital management is 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 2010, the bank's capital requirements and risk-weighted assets for credit risk, equity risk, market risk and other risks, 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	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Credit risk	172 434	138 859	1 768 557	1 424 198
Operational risk	17 502	17 477	179 500	179 250
Equity risk	2 480	1 381	25 431	14 172
Market risk	264	443	2 709	4 550
Other risk	12 263	11 153	125 780	114 391
	<u>204 943</u>	<u>169 313</u>	<u>2 101 977</u>	<u>1 736 561</u>

## 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.

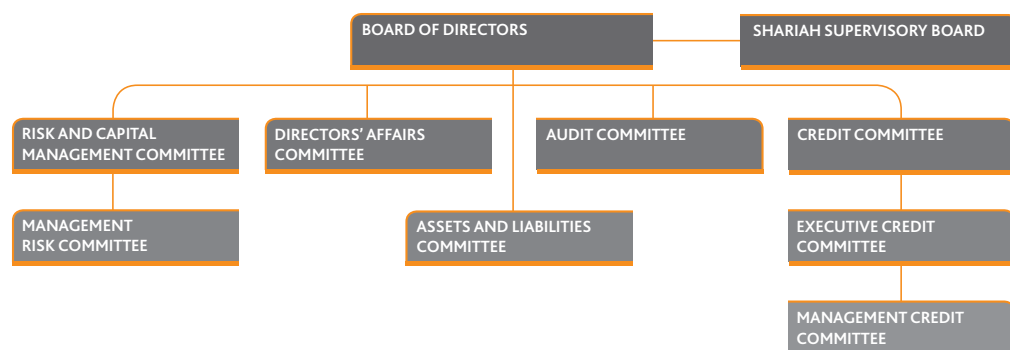
# Notes to the Financial Statements

for the year ended 31 December 2010

(continued)

## 2. Risk management and assessment (continued)

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



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.

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 counterparties 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; and
- 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.

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 of the 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 Financial Instruments: Recognition and Measurement. The bank's policy with regard to the impairment of advances is as disclosed under Accounting Policy 9.

# Notes to the Financial Statements

for the year ended 31 December 2010

(continued)

## Group and Company

2010      2009  
R'000      R'000

## 2. Risk management and assessment (continued)

### 2.1 Credit risk (continued)

#### Credit exposures

Advances to customers	1 934 667	1 592 767
Advances and balances with banks	546 398	550 709
Advances and balances with Central Bank	205 688	120 124
Letters of credit, guarantees and confirmations	147 612	22 525
Total exposure	2 834 365	2 286 125
Impairment of advances	(14 705)	(17 092)
Net exposure	2 819 660	2 269 033

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

#### Analysis of concentration of credit risk

#### Geographical distribution of exposures

Customer exposure		
KwaZulu-Natal	1 186 379	955 660
Gauteng	596 363	449 924
Western Cape	299 537	209 708
Total customer exposure	2 082 279	1 615 292
Bank exposure		
KwaZulu-Natal	12 176	25 208
Gauteng	739 910	645 625
Total bank exposure	752 086	670 833
Total exposure	2 834 365	2 286 125

#### Industry distribution of exposures

Banks and financial institutions	752 086	670 833
Individuals	555 960	417 464
Other services	1 526 319	1 197 828
Total exposure	2 834 365	2 286 125

**Group and Company**

2010	2009
R'000	R'000

***Product distribution analysis***

Property (Musharaka and Murabaha)	1 290 250	1 071 083
Equity finance	471 650	480 028
Instalment sales	336 085	295 107
Trade	307 705	224 197
Balances with Central Bank and local banks	280 436	190 805
Letters of credit	2 470	19 733
Guarantees and confirmations	145 142	2 792
Other	627	2 380
Total exposure	<u>2 834 365</u>	<u>2 286 125</u>

***Residual contractual maturity of book***

Within 1 month	- equity finance	153 933	52 600
	- other	312 552	319 150
From 1 to 3 months	- equity finance	195 621	72 715
	- other	291 904	137 228
From 3 months to 1 year	- equity finance	122 096	354 713
	- other	378 835	280 990
From 1 year to 5 years		805 834	764 167
More than 5 years		573 590	304 562
Total exposure		<u>2 834 365</u>	<u>2 286 125</u>

# Notes to the Financial Statements

for the year ended 31 December 2010

(continued)

	Group and Company							Total
	Advances to customers		Advances and balances with banks		Other exposures			
	2010 R'000	2009 R'000	2010 R'000	2009 R'000	2010 R'000	2009 R'000		

## 2. Risk management and assessment (continued)

### 2.1 Credit risk (continued)

#### Past due and individually impaired

Standard category	-	251	-	-	-	-	-	251
Special mention category	-	1 723	-	-	-	-	-	1 723
Sub-standard category	7 577	2 533	-	-	-	-	7 577	2 533
Doubtful category	5 556	3 779	-	-	-	-	5 556	3 779
Loss category	20 903	19 905	-	-	-	-	20 903	19 905
Gross amount	<b>34 036</b>	28 191	-	-	-	-	<b>34 036</b>	28 191
Specific impairment	<b>(6 434)</b>	(9 692)	-	-	-	-	<b>(6 434)</b>	(9 692)
Carrying amount	<b>27 602</b>	18 499	-	-	-	-	<b>27 602</b>	18 499

#### Past due but not impaired

Standard category	242 410	194 820	-	-	-	-	242 410	194 820
Special mention category	224 789	210 518	-	-	-	-	224 789	210 518
Sub-standard category	3 005	16 550	-	-	-	-	3 005	16 550
Doubtful category	9 039	7 719	-	-	-	-	9 039	7 719
Loss category	13 946	2 933	-	-	-	-	13 946	2 933
Carrying amount	<b>493 189</b>	432 540	-	-	-	-	<b>493 189</b>	432 540

#### Neither past due nor impaired

Standard category	1 407 442	1 132 036	752 086	670 833	147 612	22 525	2 307 140	1 825 394
Carrying amount	<b>1 407 442</b>	1 132 036	<b>752 086</b>	670 833	<b>147 612</b>	22 525	<b>2 307 140</b>	1 825 394
Total carrying amount before portfolio impairment	<b>1 928 233</b>	1 583 075	<b>752 086</b>	670 833	<b>147 612</b>	22 525	<b>2 827 931</b>	2 276 433
Portfolio impairment - Standard category	<b>(8 271)</b>	(7 400)	-	-	-	-	<b>(8 271)</b>	(7 400)
Net carrying amount	<b>1 919 962</b>	1 575 675	<b>752 086</b>	670 833	<b>147 612</b>	22 525	<b>2 819 660</b>	2 269 033

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 26).

	<b>2010</b>	2009
	<b>R'000</b>	R'000
Estimated fair value of collateral and other security enhancements	<b>1 906 489</b>	1 262 658

A distribution analysis of past due advances, impaired and not impaired, is disclosed below:

Past due and individually impaired

- Individuals	<b>12 376</b>	12 135
- Other customers	<b>21 660</b>	16 056
	<b>34 036</b>	28 191

Past due but not impaired

- Individuals	<b>118 696</b>	108 348
- Other customers	<b>374 493</b>	324 192
	<b>493 189</b>	432 540

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

	<b>Group and Company</b>											
	<b>Less than 30 days</b>		<b>30 to 60 days</b>		<b>60 to 180 days</b>		<b>Greater than 180 days</b>				<b>Total</b>	
	<b>2010</b>	2009	<b>2010</b>	2009	<b>2010</b>	2009	<b>2010</b>	2009	<b>2010</b>	2009	<b>2010</b>	2009
	<b>R'000</b>	R'000	<b>R'000</b>	R'000	<b>R'000</b>	R'000	<b>R'000</b>	R'000	<b>R'000</b>	R'000	<b>R'000</b>	R'000
Individuals	<b>80 148</b>	76 008	<b>20 982</b>	25 888	<b>7 464</b>	3 290	<b>10 102</b>	3 162	<b>118 696</b>	108 348		
Other customers	<b>334 385</b>	276 443	<b>27 187</b>	39 411	<b>7 323</b>	7 101	<b>5 598</b>	1 237	<b>374 493</b>	324 192		
	<b>414 533</b>	352 451	<b>48 169</b>	65 299	<b>14 787</b>	10 391	<b>15 700</b>	4 399	<b>493 189</b>	432 540		

## 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 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 five 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.

# Notes to the Financial Statements

for the year ended 31 December 2010

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## 2. Risk management and assessment (continued)

### 2.2 Market risk (continued)

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

	2010	2009
	R'000	R'000
Assets held under interest rate risk - Treasury bills	97 282	77 043
Assets held under market rate risk - Investment in unit trust	4 639	3 935
Assets held under exchange rate risk - Foreign currency held	217	365
	<u>102 138</u>	<u>81 343</u>

### 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 properties held in Athlone (Cape Town) and Kingsmead (Durban). In addition, the bank owns 9,4% in Kiliminjaro Investments 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 26 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 mismatch 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 with regard to 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 credit risk, liquidity 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.

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 staff are well versed in 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 the bank 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, moveable and other sundry assets.

# Notes to the Financial Statements

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	Group		Company	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000

## 3. Property and equipment

### Cost

Land and buildings	76 066	74 385	63 444	63 444
Vehicles	2 708	2 126	2 708	2 126
Equipment and computers	39 000	35 659	39 000	35 659
Leasehold improvements	10 328	7 588	10 867	7 588
Tank containers	7 145	7 145	7 145	7 145
	<b>135 247</b>	<b>126 903</b>	<b>123 164</b>	<b>115 962</b>

### Accumulated depreciation and impairment

Land and buildings	-	-	(4 933)	(705)
Vehicles	(1 019)	(683)	(1 019)	(683)
Equipment and computers	(24 919)	(22 331)	(24 919)	(22 331)
Leasehold improvements	(6 453)	(4 958)	(6 453)	(4 958)
Tank containers	(3 974)	(3 667)	(3 974)	(3 667)
	<b>(36 365)</b>	<b>(31 639)</b>	<b>(41 298)</b>	<b>(32 344)</b>
	<b>98 882</b>	<b>95 264</b>	<b>81 866</b>	<b>83 618</b>

Land and buildings comprise the following commercial properties as described below:

1. Commercial property in Cape Town described as Erf no. 33983 Cape Town in extent 610 square metres independently valued at R9,8 million (2009: 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. Commercial property comprises land and buildings at cost.

3 655      3 655

2. Commercial property in Durban described as Portion 6 of Erf 12445 Durban, Registration Division FU, Province of KwaZulu-Natal, in extent 3 316 square metres. The property is leased to the bank. The lease contains an initial non-cancellable period of ten years. The property was independently valued at R72 million (2009: R72 million). Commercial property comprises land at a cost of R3,5 million (2009: R3,5 million) and buildings thereon at a cost of R68,9 million (2009: R67,2 million).

72 411      70 730

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
3. Land and buildings held under finance leases comprise Portion 6 of Erf 12445 Durban, Registration Division FU, 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 (2009: R72 million) and calculating a rate intrinsic in the lease 14,3% (2009: 14,3%).				
			<b>58 511</b>	62 739
	<b>76 066</b>	74 385	<b>58 511</b>	62 739
Carrying value at beginning of year	<b>74 385</b>	45 693	<b>62 739</b>	-
Additions	<b>1 681</b>	28 692	-	63 444
Depreciation			<b>(4 228)</b>	(705)
	<b>76 066</b>	74 385	<b>58 511</b>	62 739

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

Included in equipment and computers is an amount of Rnil (2009: R1,7 million) in respect of capital work in progress which represents the installation of the bank's core operating system.

Carrying value at beginning of year	<b>1 654</b>	1 101	<b>1 654</b>	1 101
Additions	<b>487</b>	553	<b>487</b>	553
Transfer to equipment and computers	<b>(2 141)</b>	-	<b>(2 141)</b>	-
	-	1 654	-	1 654

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(continued)

Land and buildings	Vehicles	Equipment and computers	Leasehold improvements	Tank containers	Total
R'000	R'000	R'000	R'000	R'000	R'000

## 3. Property and equipment (continued)

### Movement in property and equipment

#### Group

#### 2010

Net carrying value at beginning of year	74 385	1 443	13 328	2 630	3 478	95 264
Additions	1 681	669	3 775	2 494	-	8 619
Disposals	-	(13)	(10)	-	-	(23)
Depreciation for the year	-	(410)	(2 965)	(1 249)	(307)	(4 931)
Impairment for the year	-	-	(47)	-	-	(47)
Net carrying value at end of year	<u>76 066</u>	<u>1 689</u>	<u>14 081</u>	<u>3 875</u>	<u>3 171</u>	<u>98 882</u>

#### 2009

Net carrying value at beginning of year	45 693	1 153	6 623	1 753	3 785	59 007
Additions	28 692	683	9 832	1 821	-	41 028
Disposals	-	(102)	(44)	-	-	(146)
Depreciation for the year	-	(291)	(2 504)	(944)	(307)	(4 046)
Impairment for the year	-	-	(579)	-	-	(579)
Net carrying value at end of year	<u>74 385</u>	<u>1 443</u>	<u>13 328</u>	<u>2 630</u>	<u>3 478</u>	<u>95 264</u>

	<b>Land and buildings</b>	<b>Vehicles</b>	<b>Equipment and computers</b>	<b>Leasehold improvements</b>	<b>Tank containers</b>	<b>Total</b>
	R'000	R'000	R'000	R'000	R'000	R'000
<b>Company</b>						
<b>2010</b>						
Net carrying value at beginning of year	62 739	1 443	13 328	2 630	3 478	83 618
Additions	-	669	3 775	3 033	-	7 477
Disposals	-	(13)	(10)	-	-	(23)
Depreciation for the year	(4 228)	(410)	(2 965)	(1 249)	(307)	(9 159)
Impairment for the year	-	-	(47)	-	-	(47)
Net carrying value at end of year	<u>58 511</u>	<u>1 689</u>	<u>14 081</u>	<u>4 414</u>	<u>3 171</u>	<u>81 866</u>
<b>2009</b>						
Net carrying value at beginning of year	-	1 153	6 623	1 753	3 785	13 314
Additions	63 444	683	9 832	1 821	-	75 780
Disposals	-	(102)	(44)	-	-	(146)
Depreciation for the year	(705)	(291)	(2 504)	(944)	(307)	(4 751)
Impairment for the year	-	-	(579)	-	-	(579)
Net carrying value at end of year	<u>62 739</u>	<u>1 443</u>	<u>13 328</u>	<u>2 630</u>	<u>3 478</u>	<u>83 618</u>

<b>Group</b>		<b>Company</b>	
2010	2009	2010	2009
R'000	R'000	R'000	R'000

#### 4. Investment properties

Balance at beginning of year	-	-
Additions	10 339	-
Balance at end of year	<u>10 339</u>	<u>-</u>

Investment properties comprise the following vacant land as described:

Vacant land in Durban described as Portion 4 of Erf 12445 Durban, Registration Division FU, Province of KwaZulu-Natal, in extent 2 140 square metres and Portion 5 of Erf 12445 Durban, Registration Division FU, Province of KwaZulu-Natal, in extent 1 528 square metres.

The group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements. The group carries investment properties at historic cost less provision for depreciation and impairment. The cost of the properties was considered to be equal to their fair value at acquisition. The directors perform an annual valuation, with a formal valuation being performed every three years. No material gains or losses since the date of acquisition have been identified.

# Notes to the Financial Statements

for the year ended 31 December 2010

(continued)

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>5. Intangible assets</b>				
<b>Cost</b>				
Computer software	1 250	914	1 250	914
Capitalised project costs	25 037	20 028	25 037	20 028
	<b>26 287</b>	<b>20 942</b>	<b>26 287</b>	<b>20 942</b>
<b>Accumulated amortisation and impairment</b>				
Computer software	(619)	(277)	(619)	(277)
Capitalised project costs	(2 955)	(826)	(2 955)	(826)
	<b>(3 574)</b>	<b>(1 103)</b>	<b>(3 574)</b>	<b>(1 103)</b>
	<b>22 713</b>	<b>19 839</b>	<b>22 713</b>	<b>19 839</b>
Included in intangible assets is an amount of Rnil (2009: R14,6 million) in respect of capital work in progress which represents the installation of the bank's core operating system.				
Carrying value at beginning of year	14 558	6 539	14 558	6 539
Additions	4 915	8 019	4 915	8 019
Transfer to intangible assets	(19 473)	-	(19 473)	-
	<b>-</b>	<b>14 558</b>	<b>-</b>	<b>14 558</b>

	<b>Computer software R'000</b>	<b>Capitalised project costs R'000</b>	<b>Total R'000</b>
<b>Movement in intangible assets</b>			
<b>Group and company</b>			
<b>2010</b>			
Net carrying value at beginning of year	637	19 202	19 839
Additions	336	5 009	5 345
Amortisation for the year	(342)	(2 129)	(2 471)
Net carrying value at end of year	<u>631</u>	<u>22 082</u>	<u>22 713</u>
<b>2009</b>			
Net carrying value at beginning of year	337	8 530	8 867
Additions	452	11 184	11 636
Amortisation for the year	(152)	(512)	(664)
Net carrying value at end of year	<u>637</u>	<u>19 202</u>	<u>19 839</u>
	<b>Group</b>	<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
		2009	<b>2009</b>
		<b>R'000</b>	<b>R'000</b>

## 6. Investment in and amount due by subsidiary company

Albaraka Properties (Proprietary) Limited is 100% (2009: 100%) owned by Albaraka Bank Limited.

The issued share capital of Albaraka Properties (Proprietary) Limited comprises 100 shares of R1 each (2009: 100 shares of R1 each).

Shares at cost	*	*
Due by subsidiary		
- Loan account	84 247	71 440
- Finance lease liability (note 27.2)	(66 055)	(63 804)
	<u>18 192</u>	<u>7 636</u>
	<u>18 192</u>	<u>7 636</u>

\* Amount less than R1 000.

The amount due by the subsidiary is profit-free. The balance of the finance lease liability has been set off against the balance on 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.

# Notes to the Financial Statements

for the year ended 31 December 2010

(continued)

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Balance at beginning of year	7 193	6 325	7 388	6 144
Transfers (to)/from profit for the year	(1 351)	861	2 201	1 237
Transfers (to)/from welfare and charitable funds	(11)	7	(11)	7
Balance at end of year	<u>5 831</u>	<u>7 193</u>	<u>9 578</u>	<u>7 388</u>

## 7. Deferred tax asset

The deferred tax asset comprises the following:

Temporary differences arising on finance lease			2 113	298
Deferred tax on accumulated tax credits in subsidiary	3 679	4 063		
Impairment of financial instruments	139	339	139	339
Impairment for doubtful advances	1 351	2 036	1 351	2 036
Other provisions	6 987	4 967	7 000	4 967
Prepaid expenses	(208)	(159)	(203)	(160)
Plant and equipment	(6 117)	(4 053)	(822)	(92)
	<u>5 831</u>	<u>7 193</u>	<u>9 578</u>	<u>7 388</u>

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.

## 8. Investment securities

Unit trust investments: 405 522 units (2009: 402 755 units)

in Old Mutual Albaraka Equity Fund

At cost	5 135	5 108	5 135	5 108
Impairment	(496)	(1 173)	(496)	(1 173)
	<u>4 639</u>	<u>3 935</u>	<u>4 639</u>	<u>3 935</u>

Unlisted investments

Kiliminjaro Investment Limited, at cost

	2 600	2 600	2 600	2 600
	<u>7 239</u>	<u>6 535</u>	<u>7 239</u>	<u>6 535</u>

Kiliminjaro Investments Limited is a property owning company of which the bank owns 9,4% (2009: 9,4%). The directors are of the opinion that the fair value of the bank's investment in Kiliminjaro Investment Limited approximates the cost.

	Group		Company	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000

## 9. Advances and other receivables

### 9.1 Sectoral analysis

#### Advances to customers

Property (Musharaka and Murabaha)	1 290 250	1 071 083	1 290 250	1 071 083
Instalment sale	336 085	295 107	336 085	295 107
Trade	307 705	224 197	307 705	224 197
Other	627	2 380	627	2 380

Gross advances to customers	1 934 667	1 592 767	1 934 667	1 592 767
Impairment for doubtful advances	(14 705)	(17 092)	(14 705)	(17 092)
	1 919 962	1 575 675	1 919 962	1 575 675

#### Advances to banks

Equity finance	471 650	480 028	471 650	480 028
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Net advances	2 391 612	2 055 703	2 391 612	2 055 703
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Other receivables	2 944	1 384	2 824	1 381
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South African Revenue Service - income tax	3 082	1 639	3 082	1 392
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- value added tax	-	178	-	-
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	2 397 638	2 058 904	2 397 518	2 058 476
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Included under property are Musharaka advances amounting to R1 221,8 million (2009: R970,9 million).

### 9.2 Maturity analysis

#### Advances to customers

Within 1 month	152 864	125 018	152 864	125 018
From 1 month to 3 months	175 025	126 698	175 025	126 698
From 3 months to 1 year	312 541	272 322	312 541	272 322
From 1 year to 5 years	785 779	764 167	785 779	764 167
More than 5 years	508 458	304 562	508 458	304 562

	1 934 667	1 592 767	1 934 667	1 592 767
--	-----------	-----------	-----------	-----------

#### Equity finance

Within 1 month	153 933	52 600	153 933	52 600
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From 1 month to 3 months	195 621	72 715	195 621	72 715
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From 3 months to 1 year	122 096	354 713	122 096	354 713
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	471 650	480 028	471 650	480 028
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# Notes to the Financial Statements

for the year ended 31 December 2010  
(continued)

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>9. Advances and other receivables (continued)</b>				
<b>9.3 Analysis of impairment for doubtful advances</b>				
<b>9.3.1 Specific impairments</b>				
Balance at beginning of year	9 692	7 156	9 692	7 156
Charge to profit for the year	695	2 936	695	2 936
Bad debts written off	(3 953)	(400)	(3 953)	(400)
Balance at end of year	<u>6 434</u>	<u>9 692</u>	<u>6 434</u>	<u>9 692</u>
<b>9.3.2 Portfolio impairment</b>				
Balance at beginning of year	7 400	8 404	7 400	8 404
Charge/(release) to profit for the year	871	(1 004)	871	(1 004)
Balance at end of year	<u>8 271</u>	<u>7 400</u>	<u>8 271</u>	<u>7 400</u>
	<u>14 705</u>	<u>17 092</u>	<u>14 705</u>	<u>17 092</u>
<b>9.3.3 Impairment for credit losses</b>				
Specific impairments	695	2 936	695	2 936
Portfolio impairments	871	(1 004)	871	(1 004)
Bad debts recovered	(1 060)	(809)	(1 060)	(809)
	<u>506</u>	<u>1 123</u>	<u>506</u>	<u>1 123</u>

## 10. Cash and cash equivalents

Cash on hand	1 946	2 096	1 946	2 096
Government and other stock	97 282	77 043	97 282	77 043
Funds at call	3 050	3 050	3 050	3 050
Balances with Central Bank	108 406	43 081	108 406	43 081
Placements with other banks	71 698	67 631	71 698	67 631
	<u>282 382</u>	<u>192 901</u>	<u>282 382</u>	<u>192 901</u>

The following banking facilities are available to the group:

Letters of credit and guarantees	20 000	20 000	20 000	20 000
Foreign exchange facilities	2 715	1 000	2 715	1 000
Settlement facilities	14 779	8 880	14 779	8 880
	<u>42 494</u>	<u>29 880</u>	<u>42 494</u>	<u>29 880</u>

In addition to the above, foreign trading facilities of US\$5,0 million is available to the group.

Deposits in the sum of R48,5 million (2009: 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 in the sum of R3,0 million are pledged with a financial institution, to secure the acceptance of the bank's guarantees, for financial transactions entered into in the normal course of business with that institution.

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>11. Share capital</b>				
<b>11.1 Authorised share capital</b>				
30 000 000 (2009: 30 000 000) ordinary shares of R10 each	<u>300 000</u>	<u>300 000</u>	<u>300 000</u>	<u>300 000</u>
<b>11.2 Issued and fully paid share capital</b>				
15 000 000 (2009: 15 000 000) ordinary shares of R10 each	<u>150 000</u>	<u>150 000</u>	<u>150 000</u>	<u>150 000</u>

## 12. Reserves

Investment risk reserve	-	2 605	-	2 605
Retained income	<b>83 367</b>	64 992	<b>79 939</b>	64 419
General credit risk reserve	-	600	-	600
Regulatory credit risk reserve	-	10 656	-	10 656
	<u><b>83 367</b></u>	<u>78 853</u>	<u><b>79 939</b></u>	<u>78 280</u>

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 for investments made for depositors.

The directors have released these reserves in the current year to retained income.

The regulatory credit risk reserve was created out of retained income in 2003 at the request of the South African Reserve Bank for additional provisioning purposes. In 2010, the South African Reserve Bank allowed the release of this reserve, which was allocated to retained income.

# Notes to the Financial Statements

for the year ended 31 December 2010

(continued)

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Gross income from non-Islamic activities during the year	8 594	10 597	8 594	10 597
Normal tax thereon	(1 821)	(2 299)	(1 821)	(2 299)
Net income from non-Islamic activities during the year	6 773	8 298	6 773	8 298
Donations and advances	(11 194)	(16 480)	(11 194)	(16 480)
Balance at beginning of year	7 233	15 415	7 233	15 415
Balance at end of year	2 812	7 233	2 812	7 233

## 13. Welfare and charitable funds

## 14. Accounts payable

Sundry creditors	8 249	3 836	8 249	3 836
Accruals	9 699	11 028	7 777	7 358
South African Revenue Service	283	26	97	26
	18 231	14 890	16 123	11 220

Provision for leave pay is reflected under accruals as follows:

Balance at beginning of year	3 896	2 644	3 896	2 644
(Released)/raised during the year	(287)	1 252	(287)	1 252
Balance at end of year	3 609	3 896	3 609	3 896

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>15. Deposits from customers</b>				
Participation investment accounts	1 289 164	1 096 593	1 289 164	1 096 593
Savings accounts	65 348	206 971	65 348	206 971
Monthly investment plan	77 370	62 338	77 370	62 338
Haj investment scheme	81 853	66 808	81 853	66 808
Regular income provider	953 608	688 410	953 608	688 410
Electronic banking	71 103	2 860	71 103	2 860
Profits distributable to depositors	12 332	5 680	12 332	5 680
Other	19 836	-	19 836	-
	<b>2 570 614</b>	<b>2 129 660</b>	<b>2 570 614</b>	<b>2 129 660</b>
Maturity analysis				
Within 1 month	927 298	840 866	927 298	840 866
From 1 month to 3 months	650 812	503 061	650 812	503 061
From 3 months to 1 year	978 021	778 572	978 021	778 572
Greater than 1 year	2 151	7 161	2 151	7 161
More than 5 years	12 332	-	12 332	-
	<b>2 570 614</b>	<b>2 129 660</b>	<b>2 570 614</b>	<b>2 129 660</b>
<b>16. Net non-Islamic income</b>				
Net interest income	8 531	10 597	8 531	10 597
Other non-Shariah compliant income	63	-	63	-
	<b>8 594</b>	<b>10 597</b>	<b>8 594</b>	<b>10 597</b>
Amount transferred to welfare and charitable funds	(8 594)	(10 597)	(8 594)	(10 597)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

for the year ended 31 December 2010

(continued)

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>17. Fee and commission income</b>				
Service fees	8 358	5 146	8 358	5 146
Commission received on sale of unit trusts	2 200	1 759	2 200	1 759
Foreign exchange gains	1 757	872	1 757	872
Management fee from subsidiary			200	200
	<u>12 315</u>	<u>7 777</u>	<u>12 515</u>	<u>7 977</u>

## 18. Other operating income

Property rental income	428	311	161	30
Tank container rental income	598	740	598	740
Surplus on disposal of property and equipment	56	55	56	55
Dividend income	207	436	6 207	436
Other	52	402	44	402
	<u>1 341</u>	<u>1 944</u>	<u>7 066</u>	<u>1 663</u>

## 19. Operating expenditure

Operating expenditure is stated after charging the following items:

Auditor's remuneration				
Audit fees - current year	1 649	1 497	1 649	1 497
- prior year under provision	44	-		
Fees for other services				
Advisory	-	130	-	130
Tax consultancy	67	56	67	45
Other	235	17	235	17
	<u>1 995</u>	<u>1 700</u>	<u>1 951</u>	<u>1 689</u>

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Consultancy fees	964	1 111	964	1 087
Amortisation of intangible assets	2 471	664	2 471	664
Depreciation of property and equipment	4 931	4 046	9 159	4 751
Impairment of property and equipment	47	579	47	579
Impairment of financial instruments	(677)	(489)	(677)	(489)
Impairment for losses in subsidiary			-	(668)
Operating lease charges	1 506	3 005	1 747	3 149
Staff costs	48 878	43 916	48 878	43 916
Directors' emoluments	4 986	5 444	4 986	5 444
Executive services	3 940	4 233	3 940	4 233
Non-executive directors' fees	1 046	1 211	1 046	1 211

	Salary R'000	Bonus R'000	Other benefits R'000	Total benefits R'000
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## Directors' emoluments

### 19.1 Executive services

#### 2010

SAE Chohan - Chief executive	1 467	-	189	1 656
MG McLean - Deputy chief executive	1 145	-	23	1 168
MJD Courtiade - Financial director	1 092	-	24	1 116
	<b>3 704</b>	<b>-</b>	<b>236</b>	<b>3 940</b>

#### 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
	<b>3 298</b>	<b>800</b>	<b>135</b>	<b>4 233</b>

The executive directors do not have any service contracts.

Other benefits are short term in nature.

# Notes to the Financial Statements

for the year ended 31 December 2010

(continued)

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>19. Operating expenditure (continued)</b>				
Directors' emoluments (continued)				
<b>19.2 Non-executive directors' fees</b>				
AA Yousif			118	138
Adv. AB Mahomed SC			121	145
F Kassim			86	99
A Lambat			120	123
MS Paruk			156	205
YM Paruk			102	118
SA Randeree			116	134
OA Suleiman			134	140
M Youssef Baker			93	109
			<b>1 046</b>	<b>1 211</b>

## 20. Taxation

South African normal tax				
Current tax - current year	5 128	5 878	5 128	5 878
- prior year	181	(3 859)	181	(3 859)
Attributable to income from non-Islamic activities (refer accounting policy 11 and note 13)	(1 821)	(2 299)	(1 821)	(2 299)
Deferred tax - current year	1 391	1 569	(2 161)	1 109
- prior year	(29)	(2 436)	(29)	(2 353)
Secondary tax on companies	634	666	634	666
Taxation attributable to Islamic activities	5 484	(481)	1 932	(858)
Reconciliation of taxation charge	%	%	%	%
Effective tax rate	32,7	(2,6)	18,7	(5,0)
Secondary tax on companies	(3,8)	(3,6)	(6,1)	(3,8)
Adjustable items:				
Non-taxable income and non-deductible expenditure	(0,1)	(0,2)	16,9	0,9
Current tax adjustment - prior year	(1,0)	21,1	(1,8)	22,3
Deferred tax adjustment - prior year	0,2	13,3	0,3	13,6
	<b>28,0</b>	<b>28,0</b>	<b>28,0</b>	<b>28,0</b>

<b>Group</b>		<b>Company</b>	
<b>2010</b>	2009	<b>2010</b>	2009
<b>R'000</b>	R'000	<b>R'000</b>	R'000

## 21. 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 (2009: 15 000 000) ordinary shares in issue during the year (cents)

<b>75,1</b>	125,0
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Headline earnings per share are calculated on headline earnings and a weighted number of 15 000 000 (2009: 15 000 000) ordinary shares in issue during the year (cents)

<b>70,2</b>	121,4
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Headline earnings per share are derived from:

Profit for the year

<b>11 264</b>	18 747
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Surplus arising on disposal of property and equipment

<b>(56)</b>	(55)
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Impairment of financial instruments

<b>(677)</b>	(489)
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<b>10 531</b>	18 203
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## 22. Dividends

A dividend of 45 cents per share (2009: 45 cents) was paid on 9 July 2010 to shareholders registered on the shareholders register of the bank at close of business on 11 June 2010.

<b>6 750</b>	6 750	<b>6 750</b>	6 750
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# Notes to the Financial Statements

for the year ended 31 December 2010

(continued)

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>23. Statement of cash flows</b>				
<b>23.1 Cash generated from operations</b>				
Profit before taxation	16 748	18 266	10 341	17 316
Adjustment for non-cash items:				
Depreciation of property and equipment	4 931	4 046	9 159	4 751
Impairment of property and equipment	47	579	47	579
Amortisation of intangible assets	2 471	664	2 471	664
Surplus arising on disposal of property and equipment	(56)	(55)	(56)	(55)
Straight-lining of operating leases	(69)	(71)	(25)	(71)
Provision for leave pay	(287)	1 252	(287)	1 252
Impairment for doubtful advances	(1 566)	(1 932)	(1 566)	(1 932)
Impairment for losses in subsidiary			-	(668)
Impairment of financial instruments	(677)	(489)	(677)	(489)
	<u>21 542</u>	<u>22 260</u>	<u>19 407</u>	<u>21 347</u>
<b>23.2 Changes in working capital</b>				
Increase in deposits from customers	440 954	505 504	440 954	505 504
Increase/(decrease) in accounts payable	3 697	2 291	5 215	(1 169)
Decrease in welfare and charitable funds	(2 600)	(5 883)	(2 600)	(5 883)
Increase in advances and other receivables	(335 725)	(451 003)	(335 786)	(450 829)
	<u>106 326</u>	<u>50 909</u>	<u>107 783</u>	<u>47 623</u>
<b>23.3 Taxation paid</b>				
Amount receivable/(outstanding) at beginning of year	1 639	(2 812)	1 392	(3 846)
Amount charged to profit for the year	(4 133)	(386)	(4 133)	(386)
Amount charged to welfare and charitable funds	(1 810)	(2 299)	(1 810)	(2 299)
Amount receivable at end of year	(3 082)	(1 639)	(3 082)	(1 392)
	<u>(7 386)</u>	<u>(7 136)</u>	<u>(7 633)</u>	<u>(7 923)</u>
<b>23.4 Dividends paid</b>				
Amount outstanding at beginning of year	-	-	-	-
Dividends declared and paid	(6 750)	(6 750)	(6 750)	(6 750)
Amount outstanding at end of year	-	-	-	-
	<u>(6 750)</u>	<u>(6 750)</u>	<u>(6 750)</u>	<u>(6 750)</u>
<b>23.5 Purchase of property and equipment</b>				
Land and buildings	(1 681)	(28 692)	-	(63 444)
Vehicles	(669)	(683)	(669)	(683)
Equipment and computers	(3 775)	(9 832)	(3 775)	(9 832)
Leasehold improvements	(2 494)	(1 821)	(3 033)	(1 821)
	<u>(8 619)</u>	<u>(41 028)</u>	<u>(7 477)</u>	<u>(75 780)</u>

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>23.6 Purchase of investment properties</b>				
Land	(10 339)	-		
	<u>(10 339)</u>	<u>-</u>		
<b>23.7 Purchase of intangible assets</b>				
Computer software	(336)	(452)	(336)	(452)
Capitalised project costs	(5 009)	(11 184)	(5 009)	(11 184)
	<u>(5 345)</u>	<u>(11 636)</u>	<u>(5 345)</u>	<u>(11 636)</u>

#### 24. Letters of credit, guarantees and confirmations

Guarantees and confirmations - maximum value	145 142	19 733	145 142	19 733
Letters of credit - maximum value	2 470	2 792	2 470	2 792
	<u>147 612</u>	<u>22 525</u>	<u>147 612</u>	<u>22 525</u>

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.

#### 25. Capital commitments

Authorised but not yet contracted for	-	962	-	962
Authorised and contracted for	319	831	319	831
	<u>319</u>	<u>1 793</u>	<u>319</u>	<u>1 793</u>

The expenditure will be financed from funds on hand and generated internally.

# Notes to the Financial Statements

for the year ended 31 December 2010

(continued)

Group		Company	
2010	2009	2010	2009
R'000	R'000	R'000	R'000

## 26. Financial instruments

### 26.1 Credit risk management - maximum exposure to credit risk

Advances to customers (note 9.1)	1 934 667	1 592 767	1 934 667	1 592 767
Advances and balances with banks	546 398	550 709	546 398	550 709
Advances and balances with Central Bank	205 688	120 124	205 688	120 124
Letters of credit, guarantees and confirmations	147 612	22 525	147 612	22 525
	<u>2 834 365</u>	<u>2 286 125</u>	<u>2 834 365</u>	<u>2 286 125</u>

### 26.2 Currency risk management

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

Cash and cash equivalents

- EUR	24	4	24	4
- GBP	22	6	22	6
- SAR	31	3	31	3
- USD	140	352	140	352
	<u>217</u>	<u>365</u>	<u>217</u>	<u>365</u>

### 26.3 Derivative instruments

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

## 26.4 Liquidity risk management

The following table 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
<b>Group</b>						
<b>2010</b>						
Assets						
Advances and receivables	2 397 638	307 288	374 710	436 109	785 779	493 752
Investment securities	7 239	-	-	-	-	7 239
Cash and cash equivalents	282 382	158 585	72 339	-	-	51 458
	<u>2 687 259</u>	<u>465 873</u>	<u>447 049</u>	<u>436 109</u>	<u>785 779</u>	<u>552 449</u>
Liabilities						
Deposits from customers	2 570 614	927 298	650 812	978 021	2 151	12 332
Accounts payable	18 231	17 446	579	-	-	206
Letters of credit, guarantees and confirmations	147 612	3 049	44 540	66 294	20 055	13 674
	<u>2 736 457</u>	<u>947 793</u>	<u>695 931</u>	<u>1 044 315</u>	<u>22 206</u>	<u>26 212</u>
Net liquidity gap	<u>(49 198)</u>	<u>(481 920)</u>	<u>(248 882)</u>	<u>(608 206)</u>	<u>763 573</u>	<u>526 237</u>
<b>2009</b>						
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	-	-	-	-
	<u>2 258 340</u>	<u>353 605</u>	<u>199 413</u>	<u>630 058</u>	<u>764 167</u>	<u>311 097</u>
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	-	-
	<u>2 167 075</u>	<u>857 669</u>	<u>514 601</u>	<u>787 457</u>	<u>7 348</u>	<u>-</u>
Net liquidity gap	<u>91 265</u>	<u>(504 064)</u>	<u>(315 188)</u>	<u>(157 399)</u>	<u>756 819</u>	<u>311 097</u>

# Notes to the Financial Statements

for the year ended 31 December 2010  
(continued)

Group		Company	
2010	2009	2010	2009
R'000	R'000	R'000	R'000

## 26. Financial instruments (continued)

### 26.5 Market risk

The exposure to market risk is as follows:

Investment securities - available for sale	4 639	3 935	4 639	3 935
Investment securities - held to maturity	2 600	2 600	2 600	2 600
	<u>7 239</u>	<u>6 535</u>	<u>7 239</u>	<u>6 535</u>

Intrinsic rate %	Maturity	2010	2009
		R'000	R'000

### 26.6 Intrinsic rate risk

#### Company

Loans and borrowings subject to intrinsic rate risk

Current portion

Obligations under finance leases (note 27.2)	14,3%	2024	7 012	6 493
Total current portion			<u>7 012</u>	<u>6 493</u>

Non-current portion

Obligations under finance leases (note 27.2)	14,3%	2024	59 043	57 311
Total non-current portion			<u>59 043</u>	<u>57 311</u>

### 26.7 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:

Financial instruments 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 the 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 financial 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.

The following 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.

	<b>Non-financial instruments</b>	<b>Advances and receivables</b>	<b>Available- for-sale</b>	<b>Held to maturity</b>	<b>Other amortised cost</b>	<b>Carrying amount</b>	<b>Fair Value</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>Group</b>							
<b>2010</b>							
<b>Assets</b>							
Advances and other receivables	6 026	2 391 612	-	-	-	2 397 638	2 397 638
Investment securities	-	-	4 639	2 600	-	7 239	7 239
Cash and cash equivalents	-	185 100	-	97 282	-	282 382	282 382
	<u>6 026</u>	<u>2 576 712</u>	<u>4 639</u>	<u>99 882</u>	<u>-</u>	<u>2 687 259</u>	<u>2 687 259</u>
<b>Liabilities</b>							
Deposits from customers	-	-	-	-	2 570 614	2 570 614	2 570 614
Accounts payable	-	-	-	-	18 231	18 231	18 231
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2 588 845</u>	<u>2 588 845</u>	<u>2 588 845</u>
<b>Group</b>							
<b>2009</b>							
<b>Assets</b>							
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
	<u>3 201</u>	<u>2 248 604</u>	<u>3 935</u>	<u>2 600</u>	<u>-</u>	<u>2 258 340</u>	<u>2 258 340</u>
<b>Liabilities</b>							
Deposits from customers	-	-	-	-	2 129 660	2 129 660	2 129 660
Accounts payable	-	-	-	-	14 890	14 890	14 890
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2 144 550</u>	<u>2 144 550</u>	<u>2 144 550</u>

### 26.8 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.

# Notes to the Financial Statements

for the year ended 31 December 2010  
(continued)

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

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
<b>26. Financial instruments (continued)</b>				
<b>26.8 Fair value hierarchy (continued)</b>				
<b>Group</b>				
<b>2010</b>				
Financial assets				
Financial investments available-for-sale				
- Unit trust investments	4 639	-	-	4 639
	<u>4 639</u>	<u>-</u>	<u>-</u>	<u>4 639</u>
Financial liabilities				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>2009</b>				
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>

## 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 quoted (unadjusted) prices. 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 which are valued using quoted (unadjusted) prices primarily consist of quoted equities.

These assets are valued using quoted (unadjusted) prices which only incorporate data observable in the market.

Group		Company	
2010	2009	2010	2009
R'000	R'000	R'000	R'000

## 27. Leases

### 27.1 Leases as lessee

Operating leases

Non-cancellable operating lease rentals payable as follows:

Less than one year	1 182	1 307	1 437	1 307
Between one and five years	1 028	500	1 793	500
	<u>2 210</u>	<u>1 807</u>	<u>3 230</u>	<u>1 807</u>

Operating leases relate to building premises leased in South Africa.

2010		2009	
Minimum payments	Present value of payments	Minimum payments	Present value of payments
R'000	R'000	R'000	R'000

### 27.2 Leases as lessor - company

Finance leases

Less than one year	7 484	7 012	6 929	6 493
Between one and five years	36 419	23 903	33 722	22 133
More than five years	133 694	35 140	143 876	35 178
Total minimum lease payments	<u>177 597</u>	<u>66 055</u>	<u>184 527</u>	<u>63 804</u>
Less amounts representing finance charges	(111 542)		(120 723)	
Present value of minimum lease payments - (note 6)	<u>66 055</u>	<u>66 055</u>	<u>63 804</u>	<u>63 804</u>

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 ten 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 above. The rate intrinsic in the lease is 14,3% (2009: 14,3%) after considering the unguaranteed residual value of R72,0 million (2009: R72,0 million) which will be realised at the end of the lease.

## 28. 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 R1,8 million (2009: R1,6 million).

# Notes to the Financial Statements

for the year ended 31 December 2010

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## 29. Related party information

The holding company of Albaraka Bank Limited at 31 December 2010 is Al Baraka Banking Group B.S.C., a company registered in the Kingdom of Bahrain, which holds 56,3% (2009: 56,3%) 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% (2009: 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 6. The property rental paid to the subsidiary for the year amounted to R241 829 (2009: R143 741). The bank made finance lease repayments amounting to R6 929 169 (2009: R1 139 666) for the year.

The remuneration paid to the directors is disclosed in note 19. The management fee charged to the subsidiary is disclosed in note 17.

The Musharaka transactions are conducted on an arm's length basis. The total amount advanced is as disclosed in note 9. 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 contracts containing the nature of such interests, as well as the nature and extent of the beneficial shares held in companies is submitted to the board of directors annually for reviewing and updating. Direct interests are disclosed in the following table:

	<b>Balance Outstanding</b>	
	<b>2010</b>	2009
	<b>R'000</b>	R'000
<b>Property finance - Musharaka and Murabaha</b>		
Balance outstanding at beginning of year	6 175	7 747
Advances granted during the year	-	1 708
Repayments during the year	<b>(1 987)</b>	(4 015)
Profit earned	<b>553</b>	735
	<b>4 741</b>	6 175
Profit mark-up range for the year	<b>5,0% - 10,0%</b>	5,0% - 14,0%

The profit mark up of 5,0% is in respect of advances to executive directors at subsidised rates which, at year end amounted to R626 868 (2009: R803 589)