



1 Basis of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) for the first time and conform to Islamic Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The disclosures required by IFRS 1 concerning the transition from SA GAAP to IFRS have been applied and an explanation of how the transition to IFRS has affected the reported financial position and financial performance of the group is provided in note 25.

2 Basis of preparation

The financial statements are presented in South African rands, rounded to the nearest thousand. They have been prepared on the historical cost basis except that available for-sale financial assets are stated at fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods

presented in these consolidated financial statements and in preparing the opening IFRS balance sheet at 1 January 2004 for purposes of transition to IFRS.

3 Basis of consolidation

3.1 Investment in subsidiary company

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

3.2 Investment in associated company

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses exceeds its interests in an associate, the group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an associate.

3.3 Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Accounting Policies (continued)

4 Investments

Financial assets held for investment purposes are stated at carrying amount less any permanent diminution in value. Profits and losses are recognised on realisation.

5 Property, plant and equipment

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Property, plant and equipment, other than leasehold improvements, computer equipment and land and buildings are depreciated on a reducing balance basis. The estimated useful lives are as follows:

Equipment	-	10 years
Vehicles	-	5 years
Computers	-	3 years
Computer software	-	5 years

The assets' depreciation methods, residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

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

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Surpluses (deficits) on the disposal of property, plant and equipment are credited (charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

6 Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

7 Impairment of assets

The carrying amounts of the group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

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



was caused by a specific external event of an exceptional nature that is not expected to recur and the increase relates clearly to the reversal of the effect of that specific event.

8 Credit impairment

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

Specific impairments represent the quantification of actual and expected losses from separately identified non-performing advances. The amount of specific impairment raised is the amount needed to reduce the carrying value of the asset to the expected ultimate net realisable value, taking into account the financial status of the underlying client and any security in place for the loans and advances.

In assessing the net realisable value, the expected future cash flows from advances are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the loans.

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

In addition, a general risk reserve is maintained for significant unforeseen losses and, in particular, on advances not specifically identified as doubtful. The general risk reserve, net of any future taxation benefit, is reflected as investment risk reserves.

IAS 39 introduces changes to credit impairment practices and accounting by requiring such impairment to be determined on an incurred loss basis where there is objective evidence of a loss event after the initial recognition of the advance rather than on expectation of future losses.

9 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

10 Contingencies and commitments

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

11 Financial instruments

11.1 Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Investments

Listed investments classified as *available-for-sale financial assets* are carried at market value, which is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date.

Unlisted investments are shown at fair value, unless their fair value cannot be reliably determined, in which case they are shown at cost less accumulated impairment losses. Investments that meet the criteria for classification as *held-to-maturity financial assets* are carried at amortised cost.

Trade and other receivables

Trade and other receivables originated by the group are stated at cost less provision for doubtful advances.

Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisations.

11.2 Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in equity in the period in which the change arises.

Gains and losses from measuring the hedging instruments relating to a fair value hedge at fair value are recognised immediately in net profit or loss.

Gains and losses from remeasuring the hedging instruments relating to a cash flow hedge to fair value are initially recognised directly in equity. If the hedged firm commitment or forecast transaction results in the recognition of an asset or a liability, the cumulative amount recognised in equity up to the transaction date is adjusted against the initial measurement of the asset or liability.

For other cash flow hedges, the cumulative amount recognised in equity is included in net profit or loss in the period when the commitment or forecast transaction affects profit or loss.

11.3 Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the

liability simultaneously.

12 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable for previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts and assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.



13 Revenue recognition

13.1 Income from Islamic activities

Income from Islamic activities comprises:

- profits attributable to the purchase and sale of moveable and immoveable property, commodities and equities, manufacturing materials and finished products. The profit is recognised over the period of each transaction either on the straight line or reducing balance basis, depending on the nature of the transaction; and
- income for services rendered is recognised when earned.

13.2 Non-Islamic income

The group does not, as a policy, engage in any activities that involve usury. However, any non-Islamic income earned by the group, due to circumstances beyond its control, is transferred to the welfare and charitable fund.

13.3 Dividends

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

14 Leases

The leases entered into by the group are primarily operating leases. The total payments made under the operating leases are charged to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Payments under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

15 Cash and cash equivalents

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

16 Employee benefits

16.1 Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.