# ALBARAKA BANK LIMITED

(Registration No. 1989/003295/06)

## Bi-annual disclosures in terms of Banks' Act, Regulation 43

## June 2020

# *Contents*

## 1. Scope of application

Albaraka Bank Limited is a registered bank domiciled in South Africa and is subject to regulatory disclosure requirements under Basel III in terms of the Banks Act, No. 94 of 1990, as amended.

The Bank has a wholly-owned subsidiary, which is a property holding company and a trust which administers the issuance and management of the Albaraka Sukuk product. The subsidiary and trust are consolidated for accounting purposes and Group annual financial statements are prepared annually. The subsidiary and trust are consolidated for regulatory purposes in accordance with Regulation 36(2) of the Banks Act and Regulations.

## 2. Basis of compilation

The following disclosures have been compiled in line with Regulation 43 of the Banks' Act No. 94 of 1990 (as amended) which incorporates Basel pillar III requirements. All disclosures are consistent with International Financial Reporting Standards (IFRS).

## 3. Financial Results

### ALBARAKA BANK LIMITED

*Group Unaudited results for the period ended 30 June 2020*

| | Six months ended 30-Jun | |
|---|---|---|
| | **2020** | **2019** |
| **Statement of comprehensive income** | **R'000** | **R'000** |
| Income earned from advances | **249 778** | 241 805 |
| Income earned from equity finance | **45 700** | 42 572 |
| Income earned from mudaraba deposits | **4 700** | 6 169 |
| **Gross income earned** | **300 178** | 290 546 |
| Income paid to depositors | **(129 931)** | (133 341) |
| Income paid to sukuk holders | **(13 847)** | (10 000) |
| **Net income before impairment for credit losses** | **156 400** | 147 205 |
| Impairment for credit losses | **(8 485)** | (1 088) |
| **Net income after impairment for credit losses** | **147 915** | 146 117 |
| Net non-Islamic income | **-** | - |
| Fee and commission income | **17 193** | 21 588 |
| Other operating income | **1 098** | 2 865 |
| **Net income from operations** | **166 206** | 170 570 |
| Operating expenditure | **(132 199)** | (123 587) |
| Finance costs | **(618)** | (691) |
| **Profit before taxation** | **33 389** | 46 292 |
| Taxation | **(9 705)** | (13 416) |
| **Total comprehensive income for the period** | **23 684** | 32 876 |
| Weighted average number of shares in issue ('000) | **32 240** | 32 240 |
| Basic and diluted earnings per share (cents) | **73.5** | 102.0 |

| Statement of financial position | Six months ended 30-Jun 2020 R'000 | 2019 R'000 |
|---|---|---|
| **Assets** | | |
| Property and equipment | **110 023** | 113 182 |
| Right of use asset | **11 165** | 13 556 |
| Investment property | **10 339** | 10 339 |
| Intangible assets | **64 039** | 35 452 |
| Investment securities | **24 678** | 25 151 |
| Advances and other receivables | **5 250 019** | 4 878 072 |
| Equity finance and mudaraba deposits | **1 941 735** | 1 460 786 |
| South African Revenue Service receivable | **2 330** | - |
| Regulatory balances | **408 238** | 366 648 |
| Cash and cash equivalents | **151 742** | 169 743 |
| **Total assets** | **7 974 308** | 7 072 929 |
| | | |
| **Equity and liabilities** | | |
| **Equity** | | |
| Share capital | **322 403** | 322 403 |
| Share premium | **82 196** | 82 196 |
| Other reserves | **1 084** | 876 |
| Retained income | **387 930** | 340 485 |
| Shareholders' interests | **793 613** | 745 960 |
| | | |
| **Liabilities** | | |
| Welfare and charitable funds | **33 091** | 21 982 |
| Deferred tax liability | **5 897** | 2 554 |
| Accounts payable | **71 412** | 48 911 |
| Lease liabilities | **12 511** | 14 195 |
| South African Revenue Service payable | **272** | 1 404 |
| Provision for leave pay | **7 646** | 9 341 |
| Deposits from customers | **6 739 986** | 6 026 915 |
| Sukuk | **309 880** | 201 667 |
| **Total liabilities** | **7 180 695** | 6 326 969 |
| **Total equity and liabilities** | **7 974 308** | 7 072 929 |

## 4. Regulatory Capital Adequacy

### 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 III.

The capital structure of the Bank is as follows:

| **Regulatory capital** | ***June*** | *June* |
|---|---|---|
| | ***2020*** | *2019* |
| **Tier 1** | ***R'000*** | *R'000* |
| Share capital | **322 403** | 322 403 |
| Share premium | **82 196** | 82 196 |
| Retained income | **372 105** | 322 610 |
| Less: Unappropriated Profits | **(14 445)** | (29 843) |
| Unrealised gains and losses on available for sale items net of tax | **1 084** | 876 |
| **Total capital & reserves** | **763 343** | 698 242 |
| Less: Prescribed deductions against capital and reserve funds | **(59 264)** | (32 365) |
| **Total Tier 1 capital** | **704 079** | 665 877 |
| **Tier 2** | | |
| Portfolio impairment | **16 212** | 8 669 |
| Sukuk | **307 700** | 200 000 |
| **Total eligible capital** | **1 027 991** | 874 546 |
| **Capital adequacy ratios (Tier 1 %)** | **10,95%** | 11,64% |
| **Capital adequacy ratios (Total %)** | **15,99%** | 15,29% |
| **Minimum regulatory requirement ratios (Total %)** | **8,00%** | 9,00% |

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 30 June 2020, the minimum capital requirements and risk-weighted assets of the bank 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* | |
|---|---|---|---|---|
| | ***2020*** | *2019* | ***2020*** | ***2019*** |
| | ***R'000*** | *R'000* | ***R'000*** | ***R'000*** |
| Credit risk | **441 443** | 437 307 | **5 518 043** | 4 858 964 |
| Operational risk | **49 622** | 50 523 | **620 278** | 561 365 |
| Equity risk | **1 654** | 2 264 | **20 669** | 25 151 |
| Market risk | **1 974** | 3 078 | **24 678** | 34 199 |
| Other risk | **19 768** | 21 607 | **247 106** | 240 080 |
| | **514 461** | 514 779 | **6 430 774** | 5 719 759 |

## 5. 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 regulatory 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 International Financial Reporting Standard IFRS 9 Financial Instruments. 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. These categories relate to International Accounting Standard (IAS)

39 and are relevant as comparative information is still stated as IAS 39 exposures. Credit exposures are now in accordance with International Financial Reporting Standard (IFRS) 9 on stage credit risk allocation basis, which are Stages 1, 2 and 3.

- 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 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.

COVID-19 has negatively impacted the bank with an increase in credit risk. In light of the difficulty facing clients and the potential for default, the bank has increased its provisions by 50,3% from December 2019. The bank has factored in a high level management overlay. The bank has also granted payment deferments to clients on a case-by-case basis in order to assist them during this period. This is however, being managed closely with executive management in COVID-19 meetings.

**Credit exposures**

| | Group and Company | |
|---|---|---|
| | **2020** | 2019 |
| | **R'000** | R'000 |
| Advances to customers | **5 227 611** | 4 873 301 |
| Advances and balances with banks | **1 990 722** | 1 563 479 |
| Advances, treasury bills and balances with central bank | **494 068** | 416 389 |
| Letters of credit, guarantees and confirmations | **435 601** | 444 262 |
| Total exposure | **8 148 002** | 7 297 431 |
| Impairment of advances | **(25 576)** | (16 721) |
| Net exposure | **8 122 426** | 7 280 710 |

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

| **Geographical distribution of exposures** | | |
|---|---|---|
| Customer exposure | | |
| KwaZulu-Natal | **2 971 640** | 2 650 675 |
| Gauteng | **1 704 515** | 1 789 441 |
| Western Cape | **987 057** | 877 447 |
| Total customer exposure | **5 663 212** | 5 317 563 |
| Bank exposure | | |
| KwaZulu-Natal | **219** | 4 330 |
| Gauteng | **2 475 430** | 1 955 094 |
| Western Cape | **4** | 630 |
| United States of America | **9 137** | 19 814 |
| Total Bank exposure | **2 484 790** | 1 979 868 |
| Total exposure | **8 148 002** | 7 297 431 |

| | Group and Company | |
|---|---|---|
| | **2020** | 2019 |
| | **R'000** | R'000 |
| **Industry distribution of exposures** | | |
| Banks and financial institutions | **2 484 790** | 1 979 868 |
| Individuals | **1 427 784** | 1 496 663 |
| Business and trusts | **4 235 428** | 3 820 900 |
| Total exposure | **8 148 002** | 7 297 431 |

**Product distribution analysis**

| | | |
|---|---|---|
| Property (Musharaka and Murabaha) | **3 955 960** | 3 809 632 |
| Equity finance | **1 941 735** | 1 460 786 |
| Instalment sales | **685 986** | 661 229 |
| Trade | **582 095** | 401 766 |
| Balances with local and central banks | **543 055** | 519 082 |
| Letters of credit | **3 032** | 1 552 |
| Guarantees and confirmations | **432 569** | 442 710 |
| Other | **3 570** | 674 |
| Total exposure | **8 148 002** | 7 297 431 |

Residual contractual maturity of book

| | | | |
|---|---|---|---|
| Within 1 month | - equity finance | **301 503** | 156 557 |
| | - other | **767 934** | 483 799 |
| From 1 to 3 months | - equity finance | **1 079 468** | 361 795 |
| | - other | **405 277** | 525 118 |
| From 3 months to 1 year | - equity finance | **437 016** | - |
| | - other | **985 256** | 832 989 |
| From 1 year to 5 years | - equity finance | **123 748** | 942 434 |
| | - other | **2 034 190** | 1 972 856 |
| More than 5 years | | **2 013 610** | 2 021 883 |
| Total exposure | | **8 148 002** | 7 297 431 |

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 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.

Financial assets classified as neither past due nor impaired are well diversified with 70% invested in property transactions, 16% in instalment sale transactions (equipment and motor vehicle) and 14% in trade finance transactions. All of the above exposures are collateralized in the form of property, assets, personal sureties and company guarantees.

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

Restructured advances are exposures which have been refinanced by the bank, due to the client experiencing financial distress on an existing exposure and where it has been ascertained that the client will be able to meet the amended modified repayment terms after the restructure. Restructured advances are classified as non-performing for the first six months after a restructure has occurred and are thereafter classified according to the bank's normal classification policies.

Collateral is held specifically in respect of advances and these predominantly comprise of mortgage bonds over fixed property, notarial bonds over movable property, cessions over cash deposits, insurance policies, book debts and unit trusts as well as personal sureties and company guarantees.

Collateral is allocated per asset class as follows:

| | *Group and Company* | |
|---|---|---|
| | **Credit Exposure** | **Collateral cover** |
| | ***2020*** | |
| | ***R'000*** | ***R'000*** |
| Standard Asset | **5 080 760** | **4 757 664** |
| Special Mention Asset | **342 733** | **267 391** |
| Substandard Asset | **146 656** | **141 153** |
| Doubtful Asset | **21 290** | **21 290** |
| Loss Asset | **71 773** | **71 774** |
| | **5 663 212** | **5 259 272** |

| **IFRS 9 Classifications** | **Credit Exposure** | **ECL** |
|---|---|---|
| Stage 1 | **4 416 352** | **9 071** |
| Stage 2 | **1 101 221** | **7 141** |
| Stage 3 | **145 639** | **9 358** |
| | **5 663 212** | **25 570** |

| A distribution analysis of past due advances, impaired and past due and not impaired, is disclosed below: | *Group and Company* | |
|---|---|---|
| | ***2020*** | *2019* |
| | ***R'000*** | *R'000* |
| *Past due and individually impaired* | | |
| - Individuals | **7 937** | 9 953 |
| - Business and trusts | **41 434** | 19 939 |
| | **49 371** | 29 892 |
| *Past due but not impaired* | | |
| - Individuals | **267 588** | 383 176 |
| - Business and trusts | **1 311 659** | 733 937 |
| | **1 579 247** | 1 117 113 |

An aging analysis of past due advances 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*** | |
| | ***2020*** | *2019* | ***2020*** | *2019* | ***2020*** | *2019* | ***2020*** | *2019* | ***2020*** | *2019* |
| | ***R'000*** | *R'000* | ***R'000*** | *R'000* | ***R'000*** | *R'000* | ***R'000*** | *R'000* | ***R'000*** | *R'000* |
| Individuals | **56 307** | 331 334 | **93 883** | 30 947 | **105 290** | 10 496 | **12 108** | 10 399 | **267 588** | 383 176 |
| Business and trusts | **210 527** | 647 825 | **514 862** | 46 176 | **556 065** | 18 986 | **30 205** | 20 950 | **1 311 659** | 733 937 |
| | **266 834** | 979 159 | **608 745** | 77 123 | **661 355** | 29 482 | **42 313** | 31 349 | **1 579 247** | 1 117 113 |

## 6. Liquidity Risk

The table below shows an analysis of financial and non-financial assets and liabilities analysed according to when they are expected to be recovered or settled. The fair value of assets in the Group and Company are not materially different and thus only Group disclosures have been presented.

| | *Carrying Amount R'000* | *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** | | | | | | |
| **2020** | | | | | | |
| **Assets** | | | | | | |
| Advances | **7 191 754** | **703 980** | **1 371 570** | **1 199 837** | **2 118 614** | **1 797 753** |
| Investment securities | **24 678** | **-** | **-** | **-** | **1** | **24 677** |
| Cash and cash equivalents and regulatory balances | **559 980** | **242 635** | **23 809** | **150 083** | **-** | **143 453** |
| | **7 776 412** | **946 615** | **1 395 379** | **1 349 920** | **2 118 615** | **1 965 883** |

| | *Carrying Amount R'000* | *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** | | | | | | |
| **2020** | | | | | | |
| **Liabilities** | | | | | | |
| Deposits from customers | **6 739 986** | **2 375 149** | **917 965** | **3 325 248** | **109 837** | **11 787** |
| Sukuk | **309 980** | **-** | **-** | **-** | **309 980** | **-** |
| Accounts payable | **71 412** | **62 734** | **4 221** | **4 457** | **-** | **-** |
| Letters of credit, guarantees and confirmations | **435 601** | **151 087** | **104 021** | **94 340** | **39 324** | **46 829** |
| | **7 556 979** | **2 588 970** | **1 026 207** | **3 424 045** | **459 141** | **58 616** |
| **Net liquidity gap** | **219 433** | **(1 642 355)** | **369 172** | **(2 074 125)** | **1 659 474** | **1 907 267** |

| | Carrying Amount R'000 | 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** | | | | | | |
| **2019** | | | | | | |
| **Assets** | | | | | | |
| Advances | 6 352 414 | 380 046 | 657 589 | 595 594 | 2 890 667 | 1 828 518 |
| Investment securities | 25 151 | - | - | - | - | 25 151 |
| Cash and cash equivalents and regulatory balances | 536 391 | 248 809 | 20 782 | 136 007 | - | 130 793 |
| | 6 913 956 | 628 855 | 678 371 | 731 601 | 2 890 667 | 1 984 462 |

| | Carrying Amount R'000 | 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** | | | | | | |
| **2019** | | | | | | |
| **Liabilities** | | | | | | |
| Deposits from customers | 6 026 915 | 2 417 778 | 771 605 | 2 805 661 | 4 108 | 27 763 |
| Sukuk | 201 667 | - | - | - | 201 667 | - |
| Accounts payable | 48 911 | 43 880 | 1 653 | 3 378 | - | - |
| Letters of credit guarantees and confirmations | 444 262 | 34 649 | 220 225 | 118 912 | 24 623 | 45 853 |
| | 6 721 755 | 2 496 307 | 993 483 | 2 927 951 | 230 398 | 73 616 |
| **Net liquidity gap** | 192 201 | (1 867 452) | (315 112) | (2 196 350) | 2 660 269 | 1 910 846 |

## 7. Profit 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 thus no mismatch in terms of the earning profile of depositors and that of the Bank as the Bank will only be able to share profits which are earned. As the bank shares profits earned in a predetermined ratio to the depositors, the bank is not at risk of earning less from advances than it would be required to pay to its depositors.

With the resultant impact on reduced market rates, the bank has also reduced its profit mark-ups in line with industry, which has affected the expected inflows from the advances business. This in turn has impacted the profits that are shared with our deposit customers.

## 8. 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 policies and procedures manual;
- The provision of staff training (including fraud awareness programmes) and ensuring that staff 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 the Bank against material losses that may arise.

## 9. 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. Albaraka 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 and foreign currency held in terms of its foreign exchange license.

The Bank's exposure to market risk at
30 June is tabled below:

| | | *Group and company* | |
|---|---|---|---|
| | | ***2020*** | *2019* |
| | | ***R'000*** | *R'000* |
| Assets held under interest rate risk | - Treasury bills | **264 785** | **240 650** |
| Assets held under exchange rate risk | - Foreign currency held | **20 668** | **34 199** |
| | | **285 453** | 274 849 |

In accordance with Islamic banking principles, the bank does not levy interest on finance provided hence is not exposed to interest rate risk but rather profit rate risk. The treasury bills disclosed above are held for statutory liquidity requirements and thus interest earned on these bills are donated.

## 10. 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 in the case of Albaraka Bank, relates to its 100% investment in Albaraka Properties Proprietary Limited, a property owning subsidiary, whose sole assets are properties held in Athlone (Cape Town) and Kingsmead (Durban). In addition the bank owns 52 000 shares in Kiliminjaro Investments Proprietary Limited a property holding company as well as 1 000 shares in Earthstone Investments (Pty) Ltd also a property holding company and 160 000 shares in Ahmed Al Kadi Private Hospital Limited, a hospital development that will provide healthcare services to the general public. Both investment companies hold property in Durban, as well as the private hospital being situated 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. The bank also has an investment in unit trusts which is classified as fair-value through-profit-and-loss and 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.

## 11. Other Risk

### 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 regards to AAOIFI Shariah standards.

### Reputational Risk

Reputational risk is a risk of loss resulting from damages to a firm's reputation in lost revenue; increased operating capital or regulatory costs; or destruction of shareholder value. The bank manages this risk by employing adequately trained staff to ensure any risk of exposure to reputational risk is managed proactively.

## 12. Qualitative disclosures and accounting policies

Regulation 43 of the Banks Act requires certain qualitative disclosures and statements on accounting policy to be made. These accounting policy disclosures were made in the Banks 31 December 2019 Annual report and have remained unchanged. These disclosures should be read with reference to the accounting policy note included on the annual report which can be accessed via www.albaraka.co.za