



Albaraka Bank Limited

Registration number 1989/003295/06

Annual Financial Statements

for the year ended 31 December 2010

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Independent Auditor's Report

to the members of Albaraka Bank Limited

Report on the financial statements

We have audited the group annual financial statements and the annual financial statements of Albaraka Bank Limited, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, the statement of changes in shareholders' equity and statement of cash flow for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 30 to 81.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Albaraka Bank Limited as at 31 December 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Ernst & Young Inc.

Ernst & Young Inc.

Director - Emilio Pera

Registered Auditor

Chartered Accountant (SA)

17 March 2011

Directors' Report

for the year ended 31 December 2010

The directors have pleasure in presenting their report for the year ended 31 December 2010.

Nature of the business

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

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

Share capital

The authorised share capital of the company comprises 30,0 million (2009: 30,0 million) ordinary shares of R10 each amounting to R300,0 million (2009: R300,0 million).

The issued share capital of the company comprises 15,0 million (2009: 15,0 million) ordinary shares of R10 each amounting to R150,0 million (2009: R150,0 million).

Financial results

The results of the group and the company for the year ended 31 December 2010 are set out on pages 32 to 81.

Dividends

On 19 March 2010 the directors declared a dividend of 45 cents (2009: 45 cents) per share amounting to R6,8 million (2009: R6,8 million) paid to shareholders registered as at close of business on 11 June 2010.

Directors

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

Non-executive

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

Independent non-executive

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

Executive

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

* Independent from 01 February 2011.

** Retired 02 March 2011, appointed non-executive director 03 March 2011.

Secretary

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

BUSINESS ADDRESS	POSTAL ADDRESS	REGISTERED ADDRESS
2 Kingsmead Boulevard Kingsmead Office Park Stalwart Simelane Street Durban 4001	PO Box 4395 Durban 4000	2 Kingsmead Boulevard Kingsmead Office Park Stalwart Simelane Street Durban 4001

Subsidiary company

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

	2010	2009
	R	R
Shares	100	100
Amount owing	18 192 091	7 635 683
	<u>18 192 191</u>	<u>7 635 783</u>

Events after the reporting period

In order to increase the bank's qualifying capital, 7,5 million new ordinary shares were offered to existing shareholders in terms of a non-renounceable rights issue on 31 January 2011, as further detailed in note 30.

Statement of Financial Position

as at 31 December 2010

	Notes	Group		Company	
		2010	2009	2010	2009
		R'000	R'000	R'000	R'000
Assets					
Property and equipment	3	98 882	95 264	81 866	83 618
Investment properties	4	10 339	-		
Intangible assets	5	22 713	19 839	22 713	19 839
Investment in and amount due by subsidiary company	6			18 192	7 636
Deferred tax asset	7	5 831	7 193	9 578	7 388
Investment securities	8	7 239	6 535	7 239	6 535
Advances and other receivables	9	2 397 638	2 058 904	2 397 518	2 058 476
Cash and cash equivalents	10	282 382	192 901	282 382	192 901
Total assets		2 825 024	2 380 636	2 819 488	2 376 393
Equity and liabilities					
Equity					
Share capital	11	150 000	150 000	150 000	150 000
Reserves	12	83 367	78 853	79 939	78 280
Shareholders' interests		<u>233 367</u>	<u>228 853</u>	<u>229 939</u>	<u>228 280</u>
Liabilities					
Welfare and charitable funds	13	2 812	7 233	2 812	7 233
Accounts payable	14	18 231	14 890	16 123	11 220
Deposits from customers	15	2 570 614	2 129 660	2 570 614	2 129 660
Total equity and liabilities		2 825 024	2 380 636	2 819 488	2 376 393

Statement of Comprehensive Income

for the year ended 31 December 2010

	Notes	Group		Company	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
Income earned from advances		180 378	186 052	180 378	186 052
Income earned from equity finance		37 060	27 789	37 060	27 789
Gross income earned		217 438	213 841	217 438	213 841
Income paid to depositors		(123 002)	(121 245)	(123 002)	(121 245)
Net income before impairment for credit losses		94 436	92 596	94 436	92 596
Impairment for credit losses	9.3.3	(506)	(1 123)	(506)	(1 123)
Net income after impairment for credit losses		93 930	91 473	93 930	91 473
Net non-Islamic income	16	-	-	-	-
Fee and commission income	17	12 315	7 777	12 515	7 977
Other operating income	18	1 341	1 944	7 066	1 663
Net income from operations		107 586	101 194	113 511	101 113
Operating expenditure	19	(90 838)	(82 928)	(93 989)	(82 298)
Finance costs				(9 181)	(1 499)
Profit before taxation		16 748	18 266	10 341	17 316
Taxation	20	(5 484)	481	(1 932)	858
Total comprehensive income for the year, net of tax, attributable to equity holders		11 264	18 747	8 409	18 174
Weighted average number of shares in issue ('000)		15 000	15 000		
Basic and diluted earnings per share (cents)	21	75,1	125,0		

Statement of Changes in Shareholders' Equity

for the year ended 31 December 2010

	Share capital	Investment risk reserve	Retained income	General credit risk reserve	Regulatory credit risk reserve	Shareholders' interest
	R'000	R'000	R'000	R'000	R'000	R'000
Group						
2010						
Balance at beginning of year	150 000	2 605	64 992	600	10 656	228 853
Transfer to/(from) reserves		(2 605)	13 861	(600)	(10 656)	-
Total comprehensive income			11 264			11 264
Dividends paid			(6 750)			(6 750)
Balance at end of year	150 000	-	83 367	-	-	233 367
2009						
Balance at beginning of year	150 000	2 605	52 995	600	10 656	216 856
Total comprehensive income			18 747			18 747
Dividends paid			(6 750)			(6 750)
Balance at end of year	150 000	2 605	64 992	600	10 656	228 853

	Share capital R'000	Investment risk reserve R'000	Retained income R'000	General credit risk reserve R'000	Regulatory credit risk reserve R'000	Shareholders' interest R'000
Company						
2010						
Balance at beginning of year	150 000	2 605	64 419	600	10 656	228 280
Transfer to/(from) reserves		(2 605)	13 861	(600)	(10 656)	-
Total comprehensive income			8 409			8 409
Dividends paid			(6 750)			(6 750)
Balance at end of year	150 000	-	79 939	-	-	229 939
2009						
Balance at beginning of year	150 000	2 605	52 995	600	10 656	216 856
Total comprehensive income			18 174			18 174
Dividends paid			(6 750)			(6 750)
Balance at end of year	150 000	2 605	64 419	600	10 656	228 280

Statement of Cash Flows

for the year ended 31 December 2010

	Notes	Group		Company	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
Cash flow from operating activities					
Cash generated from operations	23.1	21 542	22 260	19 407	21 347
Changes in working capital	23.2	106 326	50 909	107 783	47 623
Taxation paid	23.3	(7 386)	(7 136)	(7 633)	(7 923)
Dividends paid	23.4	(6 750)	(6 750)	(6 750)	(6 750)
Net cash inflow from operating activities		113 732	59 283	112 807	54 297
Cash flow from investing activities					
Purchase of property and equipment	23.5	(8 619)	(41 028)	(7 477)	(75 780)
Purchase of investment properties	23.6	(10 339)	-		
Purchase of intangible assets	23.7	(5 345)	(11 636)	(5 345)	(11 636)
Purchase of investment securities		(27)	(74)	(27)	(74)
Proceeds from disposal of property and equipment		79	201	79	201
(Increase)/decrease in investment in and amount due by subsidiary				(10 556)	39 738
Net cash utilised in investing activities		(24 251)	(52 537)	(23 326)	(47 551)
Net cash from financing activities					
		-	-	-	-
Net increase for the year		89 481	6 746	89 481	6 746
Cash and cash equivalents at beginning of year		192 901	186 155	192 901	186 155
Cash and cash equivalents at end of year	10	282 382	192 901	282 382	192 901

Accounting Policies

for the year ended 31 December 2010

1. Reporting entity

Albaraka Bank Limited is a company domiciled in South Africa. The company's registered address is 2 Kingsmead Boulevard, Kingsmead Office Park, Stalwart Simelane Street, Durban, 4001. The consolidated financial statements of the company for the year ended 31 December 2010 comprise the company and its subsidiary (together referred to as the "group"). The group is primarily involved in corporate and retail banking, according to Islamic banking precepts.

2. Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgements

The preparation of the group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. The key assumptions concerning the future and other key sources of uncertainty, at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. In determining the rate intrinsic in finance leases, the group estimates any unguaranteed residual value which may be realised at the end of the lease. This unguaranteed residual is compared to the fair value of the underlying asset independently valued on a regular basis.

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

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

During the current financial period, the bank changed its core banking system, which allowed for the refinement of the rules relating to the cash flows utilised in calculating the specific impairment. The rules included within the new system cannot be applied to the old system. As such, it is not possible to complete the disclosure as required by International Accounting Standard (IAS) 8.39. Management is of the view that the change in estimate would not have had a material impact to the calculation for the specific impairment.

The portfolio impairment is calculated based on the historical trend of deterioration in the book from good to bad. The average deterioration of the book over the last five years has been used as the basis for providing the portfolio impairment. Management considers external economic and other indicators for their impact on the advances book to ensure that the portfolio impairment caters for items such as the global financial crisis and its local impact.

3. Basis of consolidation

Investment in subsidiary

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

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

Accounting Policies

for the year ended 31 December 2010

(continued)

Transactions eliminated on consolidation

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

4. Property and equipment

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

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

The assets' depreciation methods, residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date. Management have exercised judgement in determining useful lives and residual values of each category of property and equipment as required by IAS 16: Property, Plant and Equipment. These judgements have been based on past history of the expected future economic benefits to be derived from the assets. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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

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

5. Impairment of non-financial assets

The carrying amounts of the group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are independent from other assets and groups. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

6. Provisions

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

7. Contingencies and commitments

Transactions are classified as contingencies where the group's obligations depend on uncertain future events and principally 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.

8. Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, advances and other receivables, cash and cash equivalents, loans and borrowings, and accounts payable. A financial instrument is initially recognised when the group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial assets to another party without retaining control or substantially all the risks and rewards of the assets. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the group commits itself to purchase or sell the assets. Financial liabilities are derecognised if the group's obligations specified in the contract expire or are discharged or cancelled. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at their fair value plus, in the case of financial assets and liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Held-to-maturity investments

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

Available-for-sale financial assets

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

Advances and other receivables

Advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the group does not intend to sell immediately or in the near term. Advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective profit rate (EPR) method except when the group designates the advances at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EPR. The losses arising from impairment are recognised in profit for the year in the statement of comprehensive income.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Investment securities

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

Fair value measurement

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

Accounting Policies

for the year ended 31 December 2010

(continued)

may not be market observable and are derived from market prices, rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase in fair value, indicated by valuation techniques, is recognised in profit for the year, depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The group complies with IAS39 Financial Instruments: Recognition and Measurement and day one gains are immaterial to the operations of the group.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, liquidity risks as well as other factors. These adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the statement of financial position.

Non-derivative financial liabilities

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

Guarantees

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

9. Impairment of financial assets

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

The group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant financial assets or cash generating units found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Financial assets or cash generating units that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar characteristics. In respect of advances refer to note 2 for use of estimates and judgements.

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

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

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

The impairment is raised through an allowance account and the amount of the loss is recognised in profit for the year in the statement of comprehensive income.

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

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

10. Income tax expense

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

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

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

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

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

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

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

11. Revenue recognition

Income from Islamic activities

Income from Islamic activities comprises:

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

Non-Islamic income

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

Fair value gains and losses on treasury bills are regarded as non-Islamic income and are therefore transferred to the welfare and charitable fund. Non-Islamic income is reported net of these transfers on the face of the statement of comprehensive income.

Dividend income

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

12. Leases

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

Accounting Policies

for the year ended 31 December 2010
(continued)

Group as a lessee

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

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Group as a lessor

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

13. Cash and cash equivalents

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

14. Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at the lower of cost or fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise. Investment properties are derecognised when either they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

No assets held under operating leases have been classified as investment properties.

15. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit and loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or infinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit and loss when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in profit and loss. During the period of development, the asset is tested for impairment annually.

Intangible assets are amortised on a straight line basis. The current estimated useful lives are as follows:

Computer software	3 years
Capitalised project costs	3 – 8 years

Computer software comprises acquired third party software and capitalised project costs represent internally generated costs.

16. Employee benefits**Defined contribution plan**

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

Short-term employee benefits

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

17. Earnings per share

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

18. Related Parties

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

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

Close member of the family of an individual includes:

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