Annual Report 2010

Your Partner Bank

Vision, Mission, Values and Code of Business Conduct

Vision
We believe society needs a fair and equitable financial system; one which rewards effort and contributes to the development of the community.

Mission
To meet the financial needs of communities across the world by conducting business ethically, in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success.

Values
Partnership – our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff;

Driven – we have the energy and perseverance it takes to make an impact in our customers' lives and for the greater good of society;

Neighbourly – we value and respect the communities we serve. Our doors are always open; our customers always experience a warm-hearted, hospitable welcome and accommodating service;

Peace-of-mind – our customers may rest assured that their financial interests are being managed by us to the highest ethical standards;

Social contribution – by banking with us, our customers make a positive contribution to a better society; their growth and our growth will benefit the world around us.

Code of Business Conduct
Al Baraka Bank has in place a Code of Business Conduct which gives effect to the business culture of the financial institution and actions of its employees.

Principles contained in the Code of Business Conduct include:
- Reflecting the Islamic economic system and complying with Shariah requirements in all activities undertaken by the bank;
- Conducting its affairs with integrity, sincerity and accountability, whilst displaying the highest moral standards;
- Achieving customer service excellence as a way of life in a pro-active and dedicated way;
- Displaying the highest levels of customer confidentiality at all times;
- Creating opportunities for the commitment, loyalty and growth of staff;
- Conforming with International Financing Reporting Standards and to Accounting and Auditing Organisation for Islamic Financial Institutions Standards, as well as complying with all laws and regulations;
- Addressing all instances of commercial crime by adopting a policy of zero tolerance against offenders;
- Avoiding being compromised by conflicts of interest; and
- Instilling in staff a discipline of avoiding private business relationships with customers and suppliers.

Strategic Objectives, Business and Financial Highlights

Primary strategic objectives:
- An increase in returns to shareholders;
- The promotion of customer service excellence;
- The development of innovative products; and
- The utilisation of enhanced technology.

Business highlights:
- Launch of business and corporate electronic banking services; and
- Share capital increase of R105,0 million in March 2011.

Financial highlights:
- Profit before taxation R16,7 million;
- Earnings per share 75,1 cents;
- Total assets R2,8 billion;
- Total deposits R2,6 billion;
- Advances and other receivables increased by R338,7 million; and
- Shareholders' equity in excess of R233,3 million.

Contents

Al Baraka Banking Group

Albaraka Bank Limited in South Africa is a subsidiary of the internationally-acclaimed Bahrain-based Al Baraka Banking Group B.S.C.

Al Baraka Banking Group is the holder of its shareholders' interests in a number of other geographically diverse subsidiaries, incorporated in Algeria, Bahrain, Egypt, Indonesia, Jordan, Lebanon, Libya, Pakistan, Sudan, Syria, Tunisia and Turkey.

The group is one of the largest international Islamic banking groups in the world and is currently actively involved in thirteen countries world-wide, providing its customers access to Islamic banking facilities by way of more than 370 branches.

Al Baraka Banking Group was incorporated in Bahrain and is listed on the Bahrain and Dubai stock exchanges.

The group – initially created to meet the need for Islamic banking services around the world – provides a diverse range of Shariah-compliant retail, corporate and investment banking offerings, together with treasury services, and is striving to create a financial institution capable of making available to its global customer-base a truly meaningful bouquet of financial products.

The group is exceptionally well-placed to capitalise on rapid growth within this market. Al Baraka Banking Group's 2010 net income totalled US$193,0 million, total assets increased to US$16,0 billion, while customer deposits and unrestricted investment accounts amounted to US$13,6 billion.

Al Baraka Bank in South Africa is widely regarded as an important business unit within this international Islamic banking group and is constantly striving to grow its own product and service range in this country.

The group's stable of international subsidiaries includes the following thirteen banking units:

Banque Al Baraka D'Algerie in Algeria, Al Baraka Islamic Bank in Bahrain, Al Baraka Bank Egypt in Egypt, Jordan Islamic Bank in Jordan, Al Baraka Bank Lebanon SAL in Lebanon, Al Baraka Bank Pakistan in Pakistan, Al Baraka Bank in South Africa, Al Baraka Bank Sudan in the Sudan, Al Baraka Bank Syria in Syria, Al Baraka Bank Tunisia in Tunisia, Al Baraka Türk Participation Bank in Turkey and Al Baraka Banking Group representative offices in Indonesia and Libya.

Ten-Year Review

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Statement of Financial Position (Rm)										
Share capital	150	150	150	150	150	89	53	41	41	31
Shareholders' interest	233	229	217	202	187	118	75	58	55	40
Deposits from customers	2 571	2 130	1 624	1 449	1 254	1 004	885	749	552	452
Advances and other receivables	2 398	2 059	1 604	1 478	1 300	1 009	836	543	527	403
Total assets	2 825	2 381	1 871	1 686	1 470	1 179	1 012	859	645	525
Statement of Comprehensive Income (Rm)										
Profit before taxation	17	18	31	27	15	10	8	5	9	4
Total comprehensive income for the year	11	19	21	18	10	7	5	3	6	2
Share Statistics (cents)										
Basic and diluted earnings per share	75	125	145	121	102	128	129	77	197	54
Headline earnings per share	70	121	144	121	101	134	102	83	217	97
Dividend per share	45	45	35	25	20	-	-	-	50	30
Net asset value per share	1 556	1 526	1 446	1 344	1 249	1 330	1 415	1 440	1 370	1 343
Ratios (%)										
Return on average shareholders' interest	4,9	8,4	10,4	9,4	7,0	8,9	8,9	5,5	13,1	4,4
Return on average total assets	0,4	0,9	1,2	1,2	0,7	0,7	0,5	0,4	1,1	0,3
Shareholders' interest to total assets	8,2	9,6	11,6	12,0	12,7	10,0	7,4	6,7	8,5	7,7

Shareholders' interest
Ordinary share capital, share premium, non-distributable reserves and distributable reserves.

Return on average shareholders' interest
Total comprehensive income for the year, expressed as a percentage of the weighted average shareholders' interest adjusted relative to the timing of the introduction of any additional capital in a particular year.

Return on average total assets
Total comprehensive income for the year, expressed as a percentage of the weighted average total assets in a particular year.

Basic and diluted earnings per share
Total comprehensive income for the year, divided by the weighted average number of ordinary shares in issue adjusted relative to the timing of the issue of any additional ordinary shares in a particular year.

Company Profile

Albaraka Bank Limited, established in 1989, is a subsidiary of one of the world's leading Islamic financial institutions, the Bahrain-based Al Baraka Banking Group B.S.C.

The bank follows a faith-based system of financial management, taking its guiding principles from Shariah, promoting profit-sharing, while prohibiting the payment, or the receiving, of interest in any transaction.

Al Baraka Bank is the only fully-fledged Islamic bank in South Africa and offers a viable alternative to the conventional banking model.

With its head office in Durban, the bank has grown its business footprint to include six retail branches and four corporate banking offices across South Africa's major centres and has a comprehensive bouquet of sophisticated products and services, all of which are fully Shariah-compliant.

Recognising the bank's phenomenal growth and development in this country, the Al Baraka Banking Group – one of the largest Islamic groups of its kind in the world and operating in thirteen countries around the globe – has steadily increased its local business unit shareholding.

Using its international linkage, together with the growth momentum the financial institution has developed in past years, the bank is now well-placed to move to the next business level.

Given its solid platform from which to further extend its national footprint, the bank is now capable of operating effectively and efficiently at the very leading edge of Islamic banking in South Africa.

Al Baraka Bank is jointly owned by both local and international investors. Primary shareholders, as at 31 December 2010, included the Bahrain-based Al Baraka Banking Group B.S.C. (56,3%), DCD Holdings (SA) (Pty) Ltd. (11,0%), DCD London & Mutual plc (4,0%) and Johannesburg-based Timewest Investments (Pty) Ltd. (7,7%).

The balance of the bank's shareholding comprised foreign and local shareholders.

Equally, Al Baraka Bank's board comprises both local and international business people all with the individual business skills and collective expertise in Islamic banking to take this financial institution to new heights.

The bank adheres strictly to Shariah in its everyday business, whilst also ensuring that its products and services comply with Islamic business principles. Al Baraka Bank is able to provide a significant contribution to socio-economic development in South Africa.

The bank has an internal Shariah Department, an independent Shariah Supervisory Board and is a member of the international Accounting and Auditing Organisation for Islamic Financial Institutions.

Critically, the bank's products are constantly reviewed and audited to maintain ongoing compliance with Shariah.

Al Baraka Bank's enviable business track-record, together with its positioning as 'your partner bank,' reinforces the fact that, with steadily growing public support for a financial institution which fully embraces Islamic business principles, this is a business which is committed to providing a highly professional, fully-fledged and viable alternative to conventional banking in this country.

Directorate and Administration

Board of directors

During the 2010 financial year Al Baraka Bank's board of directors comprised the following members:

Non-executive

AA Yousif, Chairman (Bahraini) MBA
SA Randeree, Vice Chairman (British) BA (Hons) MBA
OA Suleiman (Sudanese) BC Jon Economics
M Youssef Baker (Egyptian) B.Sc. Economics and Political Science

Independent non-executive

F Kassim (Sri Lankan) EMP – Harvard Business School
A Lambat CA (SA)
Adv. AB Mahomed SC BA LLB Senior Counsel of the High Court of South Africa
MS Paruk CA (SA)
YM Paruk Director of companies

Executive

SAE Chohan, Chief Executive CA (SA)
MG McLean, Deputy Chief Executive AEP – UNISA (Retired 02/03/2011, appointed non-executive director 03/03/2011)
MJD Courtiade, Financial Director (French) CA (SA)

Advisor

Prof. S Cassim MCom; University Higher Diploma in Education
(Resigned 14/09/2010)

Company secretary

CT Breeds BA LLB

Shariah Supervisory Board

Dr. AS Abu Ghudda, Chairman (Syrian)
Mufti SA Jakhura
MS Omar

Business and postal addresses

Head Office:
2 Kingsmead Boulevard, Kingsmead Office Park, Stalwart Simelane Street, Durban, 4001
PO Box 4395, Durban, 4000
Email: info@albaraka.co.za
Web : www.albaraka.co.za

Retail branches:
Kingsmead (Durban) – Regional Manager: D Desai
2 Kingsmead Boulevard, Kingsmead Office Park, Stalwart Simelane Street, Durban, 4001
PO Box 4395, Durban, 4000

Overport (Durban) – Branch Controller: A Mahomed
Shop 11, Gem Towers, 98 Overport Drive, Durban, 4001
PO Box 4395, Durban, 4000

Fordsburg (Johannesburg) – Area Manager: N Cassim
Ground floor, Baitul Hamd, 32 Dolly Rathebe Road, Fordsburg, 2092
PO Box 42897, Fordsburg, 2033

Lenasia (Johannesburg) – Manager: N Seedat
Shop 20, Signet Terrace, 82 Gemsbok Street, Extension 1
Lenasia, 1827
PO Box 2020, Lenasia, 1820

Laudium (Pretoria) – Branch Controller: AS Mahomed
Laudium Plaza, Cnr. 6th Avenue and Tangerine Street, Laudium, 0037
PO Box 13706, Laudium, 0037

Athlone (Cape Town) – Manager: A Abrahams
Cnr. 42 Klipfontein and Belgravia Roads, Athlone, 7764
PO Box 228, Athlone, 7760

Corporate offices:
Durban – Manager**:** I Yuseph
2 Kingsmead Boulevard, Kingsmead Office Park, Stalwart Simelane Street, Durban, 4001
PO Box 4395, Durban, 4000

Cape Town – Manager: P Kumble
Cnr. 42 Klipfontein and Belgravia Roads, Athlone, 7764
PO Box 228, Athlone, 7760

Gauteng – Regional Manager: AR Gangat
3rd floor, 63 Dolly Rathebe Road, Fordsburg, 2092
PO Box 42897, Fordsburg, 2033

Port Elizabeth – Manager: FI Shah
Shop 5A, Pamela Arcade, 87 2nd Avenue, Newton Park, Port Elizabeth, 6001
PO Box 70621, The Bridge, 6001

Registered office

2 Kingsmead Boulevard, Kingsmead Office Park, Stalwart Simelane Street, Durban, 4001

Transfer secretaries

Computershare Investor Services (Pty) Ltd.
70 Marshall Street, Johannesburg, 2001

Auditors

Ernst & Young Inc.
1 Pencarrow Crescent, Pencarrow Park, La Lucia Ridge Office Estate
Durban, 4051

Company details

Registered name: Albaraka Bank Limited
Registration Number: 1989/003295/06
FSP number: 4652
NCR registration number: NCRCP14
Albaraka Bank Limited is an Authorised Financial Services and Credit Provider

Chairman and Chief Executive's Statement

Economic overview

The 2010 financial year saw the international and South African economies recovering from the recession of 2008/09.

Assisted by record low interest rates and the injection of massive doses of liquidity into the global financial system, together with fiscal stimulus in several leading countries, economic growth recovered to levels in line with the average of the past two decades, both internationally and domestically.

Resurgence in the growth of emerging markets, led by China, contributed to the economic recovery. In South Africa, a further moderate boost was provided following the successful hosting of the FIFA World Cup.

The lagged benefits of low interest rates saw an improvement in the financial health of individuals and businesses, while the maintenance of low-level interest rates for the foreseeable future will generate a further increase in domestic economic growth in 2011.

With inflationary pressures subdued on the back of the Rand's strength, instigated by substantial capital inflows to emerging markets, including South Africa, a continued boost to consumer spending is likely, although the downward trend in interest rates may have run its course.

It is likely that economic growth would be even stronger if the public authorities had been able to embark upon massive infrastructural investment spending, designed to be the main driver of economic growth and employment creation going forward.

This raises questions about the stated objective, contained in the New Growth Path and announced in November 2010, of generating 500 000 jobs per annum during the coming decade. To achieve this, education and skills need to be rapidly and passionately developed. Furthermore, the stranglehold over the economy by the so-called Golden Triangle of government, big business and powerful trade unions needs to be lessened, allowing small business activity to thrive more effectively.

Public-private partnerships should be encouraged in order to imbue the economic system with greater human resource capacity in the decision-making processes, so maximising efficiencies and successful outcomes from the, theoretically, noble employment creation programmes.

Al Baraka Banking Group

During the 2010 financial year the Bahrain-based Al Baraka Banking Group showed its mettle as a leading Islamic financial institution, expanding its global footprint and world-wide presence, in line with rapidly increasing demand for Shariah-compliant banking products and services.

Al Baraka Banking Group also entered a growth phase, geared towards being better able to serve its numerous clients across the world.

The review period saw a new representative office under formation in Libya, bringing to thirteen the number of business units in the group's stable, while another subsidiary, Al Baraka Bank Pakistan Limited, successfully completed a merger, creating the second largest Islamic bank in Pakistan with a network of 89 branches in 35 cities. In addition, Al Baraka Türk Participation Bank, relocated to a new corporate office, so enhancing its ability to meet demand.

Al Baraka Banking Group awarded a contract for the commencement of the construction of its own new building in Bahrain, designed to better reflect the group's image as a highly-acclaimed banking operation and one of the world's largest Islamic banking groups within the burgeoning international financial sector.

The group, now with a shareholding in uniformly branded banking operations in thirteen countries and employing well in excess of 7 000 members of staff, has assets totalling more than US$16,0 billion and achieved net income of US$193,0 million during the 2010 financial year.

The group, originally created to meet the need for Islamic banking services around the world, has rapidly evolved to clearly indicate its standing in the international banking community. In addition, two major awards were conferred on Al Baraka Banking Group during the 2010 financial year. The group was presented with the Hawkamah-UAB Corporate Governance Award in recognition of its leadership role in and high standards applied to corporate governance. The group also won the 'Best Regional Bank' Award at the prestigious 2010 annual Islamic Business & Finance Awards ceremony.

The group, humbled by these business accolades, will use such recognition to continue implementing its strategies so as to serve the development needs of the countries in which it operates, while providing innovative banking products and services in line with the evolving needs of its customers.

Shariah banking

We place great store in the fact that Al Baraka Bank is this country's only fully-fledged Islamic banking institution.

We remain committed to continuously strengthening our structures and controls, and to the ongoing training of staff, so as to further enhance Shariah compliance throughout our business activities for the benefit of our valued customers.

The bank is a member of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), an organisation internationally acclaimed for the standards it lays down and to which we adhere in our day-to-day business operations. We also take direction from the Shariah Supervisory Board, an independent body of specialist jurists in Islamic commercial jurisprudence. In this regard, therefore, we confidently display our Shariah Certificates in all our branches and corporate offices for the information of customers, prospective customers and stakeholders, certain in the knowledge that we remain totally dedicated to absolute and ongoing compliance with Shariah.

During the course of the 2010 financial year, Shariah compliance was confirmed through no fewer than five meetings undertaken by the Shariah Supervisory Board or its sub-committee, confirming our bank having successfully met AAOIFI standards.

South African financial performance

Our 2010 financial results proved disappointing, although it should be conceded that they follow in the wake of the recent crippling world-wide economic crash and on the back of the resultant extremely sluggish economic recovery in South Africa.

Of particular concern was the pedestrian rate of growth in income, even though we are pleased to be able to report that we achieved agreeably consistent growth in deposits and assets during the period under review.

Encouragingly, it is noted that since the opening in 2009 of our new and iconic head office, together with the Kingsmead and Overport branches in Durban – and coupled with the birth of our striking new corporate branding – our bank has registered flattering increases in business. Indeed, our Overport branch has exceeded expectations since opening, its prime location on the Berea being a particular customer draw-card. Meanwhile, customer growth in Lenasia has rendered our branch there woefully inadequate, resulting in a decision during the 2010 financial year to relocate the facility from its present Trade Route Mall location to a more central position. The new Lenasia branch commenced operations on 28 February 2011 at Signet Terrace.

There can be no doubt that demand for Shariah-compliant financial products is steadily increasing and we have accordingly utilised our position of consolidation to extract maximum returns from the bank's achievements to date.

While demand for credit was relatively slow in the first two quarters of the year, the third quarter ushered in a welcome change in tempo. The increase in demand for credit gained momentum in the fourth quarter, thereby enabling the bank to grow its gross advances book by a commendable 21,5% (R341,9 million) for the year. However, the relatively late surge in advances growth did little to compensate for the overall effects of the downward pressure in yields and, as a result, income earned from advances decreased by 3,0% to R180,4 million for the year.

It is pleasing to report that due to the evenly paced 20,7% (R441,0 million) growth in the deposit book, the bank experienced a significant increase in excess liquidity which ultimately led to an equivalent increase in the bank's investment in equity finance for the better part of the year, before declining by R8,4 million to R471,7 million at the end of the year. As a result, the bank's income from equity finance increased by 33,4% to R37,1 million in spite of generally lower yields which prevailed during the year.

We maintained a tight rein on credit control and our diligence paid dividends in this regard with credit provisions at a low R14,7 million (2009: R17,1 million) and an arrears ratio of just 1,3% of our advances book at year-end.

Net profit for the 2010 financial year, after accounting for operating expenses, amounted to R16,7 million (2009: R18,3 million).

Following the 2008 financial crisis, the Basel III Committee of the Bank of International Settlements moved to develop Basel III to actively address identified flaws and weaknesses which had played a part in the crisis. Such flaws included liquidity management deficiencies, inadequate capital adequacy and quality levels, overly liberal gearing in the banking industry and weak points in the fields of corporate governance, risk management and market transparency. The purpose of Basel III is to enhance bank and sector resilience, so creating improved financial stability.

In essence, Basel III focuses intensely on new capital and liquidity requirements, while also effectively addressing corporate governance problems which came to the fore during the international financial turmoil of 2008. The requirements of Basel III, especially those pertaining to liquidity, are onerous and pose new and daunting challenges within the South African banking environment. In fact, industry experts predict that bank returns on equity will decrease as a consequence of the introduction of Basel III. In order to ensure a seamless transition to Basel III, our bank convened a Basel III committee comprising representatives of various disciplines, including credit, finance, information technology, risk and human resources, under the chairmanship of the financial director.

It is anticipated that the bank will be in a position to meet the Basel III implementation date of 01 January 2012.

During the review period, the bank took a decision to raise additional share capital in the amount of R105,0 million. This will have the effect of growing the capital base of the company from R233,3 million to R338,3 million. The capital injection was completed in March 2011 thereby gearing the bank for increased capital reserve requirements and providing the platform for continued growth. Al Baraka Banking Group increased its holding to 61,8% as a result of the aforegoing.

Following hard on the heels of our bank's introduction in 2009 of an instantly successful limited foreign exchange facility, we have since applied for a full licence which would effectively allow us to provide foreign exchange products across the spectrum, while also enabling us to conduct foreign exchange transactions with other subsidiaries within Al Baraka Banking Group.

The advent of a full foreign exchange service would impact positively on our already wide-ranging bouquet of Shariah-compliant banking products.

The bank constantly strives to improve existing offerings and to identify, develop and introduce new and innovative products for the benefit of customers. During the period under review Old Mutual became involved in our Shariah-compliant unit trust, resulting in

Chairman and Chief Executive's Statement
(continued)

the name of the product being changed to the Old Mutual Al Baraka Equity Fund. In addition, a new unit trust, known as the Old Mutual Al Baraka Balanced Fund, was introduced, providing a more stable return for investors in a volatile market.

Building on our 2009 launch of electronic banking, which included the introduction of a debit card and provision of a number of ATMs around the country, we have subsequently established the Al Baraka Business Banking Account which provides owners of sole proprietorships, close corporations and proprietary companies with simple, secure, affordable and convenient banking, with the added ability to make in-store purchases using a card instead of cash.

The dawn of electronic banking, at both a personal and business level, is soon to be augmented by the emergence of our all-new electronic corporate banking product.

We are very encouraged by the tremendous uptake of and demand for electronic banking products and foresee this form of banking going from strength-to-strength as increasingly customers embrace the electronic age in which we live.

Dividends

The bank is pleased to confirm that the board approved a dividend of 45 cents per share for the 2010 financial year against the backdrop of a slowly improving economy.

This is the fifth consecutive year that we have paid a dividend to shareholders.

Corporate Governance

With the King Report on Governance for South Africa (King III) coming into effect in March 2010, we dedicated a great deal of time and effort to diligently working towards various deadlines and ensuring that we were appropriately positioned to correctly apply the principles contained in King III in our day-to-day business.

We paid particular attention to matters of sustainability, especially as regards environmental considerations during the review period and in this regard established a sub-committee specifically charged with the duty of enhancing our existing sustainability reporting, in line with King III principles.

Compliance with the principles contained in King III requires close and constant attention and whilst we fully recognise and acknowledge the need for such attention, it comes at a price. The cost of compliance is having an impact on the bank, given the greatly increased internal resources we must deploy to ensure that we fully comply with regulations.

The year under review also brought with it a number of legislative changes to the Companies Act, changes which we carefully reviewed and are in the process of bringing into effect.

Information technology

The 2010 financial year saw the bank's introduction of its new Equation Banking and Branch Automation System, which followed an intensive two-year implementation process.

We are especially pleased to finally have the new system in place and operational, as this brings our business more closely in line with Al Baraka Banking Group in Bahrain, as well as a number of other subsidiaries within the group. Importantly, the banking system creates the opportunity for consistency and standardisation of operation which will, in turn, enhance our efficiency levels, thereby improving the bank's competitive edge in the market.

The introduction of the Equation Banking and Branch Automation System is one more building block in the provision of additional systems for the future of the bank.

Corporate social investment

We at Al Baraka Bank recognise and acknowledge that there exists in South Africa a myriad of social challenges which must be overcome if this country is to prosper.

A concerted and sustained effort by both the public and private sectors is required if we are to make a positive impact on such barriers to growth and development.

The bank has, since 1994, played an active role in helping to address a range of socio-economic issues. Our extensive Corporate Social Investment Programme sets out to tackle the plight of disadvantaged communities in South Africa in five broad fields, including education, humanitarianism, health, security and poverty alleviation. During the 2010 financial year we made a total of 253 donations, with a combined value of almost R11,2 million, to worthy organisations throughout South Africa. Of this amount, R3,2 million was committed to educational initiatives, inclusive of school extensions and upgrades, library facilities and computer centres, in the belief that the provision of sound education is the true and long-term key to eradicating poverty in this country.

As a responsible corporate organisation, we remain loyal to the ideal behind social investment and continue identifying appropriate and relevant projects which will give effect to community upliftment into the future.

Future prospects

With economic conditions in South Africa and internationally showing signs of slow improvement, Al Baraka Bank has emerged from the trying conditions of the past several years with a sound base for another period of cautious growth.

Having consolidated our position, it is our intention now to extract maximum return against our past achievements. Our focus for the future is to further improve profitability, especially in terms of income generation.

Complementary to this endeavour is our unswerving commitment to continuously investigating, developing and introducing new Shariah-compliant products and services to meet the growing needs and – indeed – expectations of customers and prospective customers.

Central to the bank's future growth is the necessity for the delivery of customer service excellence. It is our goal to revisit and rekindle the relationships we have formed with our customers – private, business and corporate – cementing true and meaningful partnerships for the mutual benefit of the bank and its highly valued customers. Equally, we will vigorously pursue the need to instigate the formation of partnerships with prospective new customers so as to significantly grow our customer base across the country.

Appreciation

It is our sad duty to bid farewell to one of the bank's stalwarts, Mr Thys McLean, our deputy chief executive. The 2010 financial year was his last before retiring in March 2011. Mr McLean devoted some 40 years to working in the banking industry, 10 of which were spent with Al Baraka Bank in Durban.

Mr McLean is vastly experienced and has amassed a wealth of banking knowledge which he constantly drew on to the benefit of the bank. The energy and dedication he displayed was an inspiration to every member of our staff. Although now retired, we are fortunate not to have lost Mr McLean's banking skills and industry insights, as he has accepted a position as a non-executive director on our board. We look forward to the contribution he will make at this level.

We also bid farewell and recognise the contribution of Professor S Cassim, who served as an advisor to the board and resigned in September 2010. We thank her and wish her everything of the best for the future.

During the 2010 financial year, South Africa's Professional Management Review (PMR) undertook a comprehensive assessment of this country's Islamic business community, gauging its development and economic contribution on various levels, business competencies, brand awareness and the Islamic business community as potential partners for both local and international investors.

Our bank was placed first in the Banking: Business category and second in the Banking: Personal category. This was a tremendous tribute to the efforts of everyone involved with Al Baraka Bank and their commitment to ensuring our institution's standing as a leading Islamic business entity in this country. We greatly appreciate these accolades; accolades which will inspire us to ever greater business heights going forward.

The 2010 financial year was characterised by numerous challenges, the legacy of the previous recession and global financial crisis. Pleasingly, the resilience and expertise displayed by our board in giving strategic direction to the bank, coupled with the dedication and sheer determination of our executive and staff saw us successfully overcome the various business challenges we met as we charted a new course; a course designed to put behind us the negativity associated with the economic down-turn, instead looking to a further period of pragmatic growth.

We accordingly take this opportunity to thank most sincerely Al Baraka Banking Group for its continued belief in and support of Al Baraka Bank in South Africa. We are also particularly grateful to the members of our board whose individual skills and collective expertise have, in no small measure, been responsible for our success in understandably difficult business conditions. Thanks, too, are due to our executive and all our members of staff for their steadfastness in the face of adversity and their loyalty to the bank and its customer commitments.

Lastly, we extend our most sincere thanks to our numerous private, business and corporate customers who support Al Baraka Bank and the Islamic banking ideal. We greatly value such support and reaffirm our commitment to being *your* partner bank.

We thank Almighty Allah, Most Gracious, and pray that He will continue guiding us to success in the future.

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Adnan Ahmed Yousif
Chairman

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Shabir Chohan
Chief Executive

17 March 2011
Durban

Human Resources Report

The 2010 financial year was marked by the implementation of a number of significant developments in the bank's human resources arena to the benefit of both the bank and our valued members of staff.

Climate survey – ratings improvement

Between 2008 and 2010, the bank committed itself to annually reviewing and understanding the climate and culture within the company, as experienced by members of staff. This was achieved through the completion of a 'Best Company To Work For' survey.

The application of initiative and the implementation of focused interventions, all geared towards specific dimensions, saw overall ratings improve significantly during the review period, bolstered by the further development of our human resources policies and procedures. Critically, a plan designed to ensure the continuity of these dimensions has now also been developed.

Employee self-service

With the advent of advanced human resources technological intelligence, a new self-service system was brought into effect during the 2010 financial year, providing an employee-friendly web interface offering workflow functionality and involving line managers in otherwise paper-based payroll and human resources processes.

Procedures, such as leave application, the viewing of leave records and updated personal and family details may now be captured and viewed electronically. Apart from the obvious benefits the paperless approach brings to the work environment, the new system ensures improved accuracy of reporting and real-time access to data.

Training and development

Recognising the critical importance of leadership competencies within our organisational environment, we committed resources to focusing on a senior management and leadership developmental framework. Training sessions culminated in a supportive 'management toolbox' which has equipped our managers with the ability to work within a unified model and approach, thereby creating consistency and professionalism.

In addition, senior managers participated in the Leader Executive Programme at the University of Cape Town's Graduate School of Business during the review period. In an effort to ensure the transfer and sharing of learning, customised sessions are planned for 2011 whereby a select group of managers will be afforded the opportunity to develop themselves, courtesy of this unique programme. Similarly, the human resources manager attended a 'HR as a Strategic Business Partner' course at the same institution, which aimed to promote the embracing of a new approach to human resource management at the bank.

During the same period, two senior managers were selected by the Bank Seta to attend the International Executive Development Programme (IEDP) in the United Kingdom and Uganda, ensuring that succession planning is strategically managed. Given the need for a targeted approach to training and development at the bank going forward, a series of Needs Analysis Consultations were conducted at the bank.

Successful graduate programme

Our graduate programme continued creating opportunities for finance or accounting graduates during the 2010 financial year, a period marking the bank's third such programme. This initiative allows new talent to learn experientially the operations of each department within the bank and also includes exposure to the branch environment. For the first time ever, a human resources graduate was also welcomed to the programme, adding further value to special project implementation.

Induction programme

During the review period a new induction programme was developed for and implemented by the bank, ensuring a welcoming approach and an informative first impression. The induction programme comprises a number of components, inclusive of welcoming notes which outline the competencies of the individual, a tour of the bank's head office and a comprehensive powerpoint presentation about the bank. The new programme format ensures that newly recruited members of staff feel both an intellectual and emotional engagement with Al Baraka Bank's culture and climate.

Job descriptions

A project geared around the redesign of job descriptions for all positions within the bank was undertaken during the review period.

The intervention aimed to ensure that all key performance areas, together with key performance indicators and competencies were adequately updated and clearly outlined in support of the bank's integral performance management process and, ultimately, the institution's overall business achievement and productivity.

Health and wellness

Early in 2010 all members of staff were invited to participate in an exciting new initiative, dubbed the World-Wide Tour. Aimed at promoting a healthier lifestyle, members of staff were challenged and encouraged to walk, jog or run the distance equivalent to the actual kilometres between the countries where Al Baraka Bank subsidiaries are located.

A further dimension saw each country being celebrated in an effort to connect globally and achieve internal team-building.

A health and wellness day was also successfully co-ordinated which allowed staff members to obtain a status report on their health. This component of the wellness environment is acknowledged as a significant contributor to performance and productivity.

Workforce	AIC*		White		Total		Grand Total
	M	F	M	F	M	F	
Executive management	2	-	2	-	4	-	4
Professionally qualified and experienced specialists and mid-management	26	8	2	2	28	10	38
Skilled technical and academically qualified workers, junior management and supervisors	55	44	1	-	56	44	100
Semi-skilled and discretionary decision-making	26	64	-	-	26	64	90
Unskilled and defined decision-making	5	7	-	-	5	7	12
Total	**114**	**123**	**5**	**2**	**119**	**125**	**244**

* *AIC = African, Indian and Coloured*

Information Technology Report

The 2010 financial year brought the bank's core technology landscape to maturity with the bedding-down and fine-tuning of a number of new technologies and infrastructural implementations, including the state-of-the-art data centre, high speed multi-protocol labelling switching network, voice-over-ip telephony, virtualised server environments, ATMs, debit cards and internet banking systems.

Whilst operations under the new and sophisticated environment warranted organisational adjustments in terms of becoming accustomed to systems and processes, the general accomplishment and stabilisation of the environment following the implementation of these technologies invoked a sense of both pride and growth; a sense shared with all stakeholders with regard to the mutual realisation of improved service benefits within an efficient operating environment in the quest for sustainable growth. As an extension of targeted strategic objectives to increase profitability, reduce costs, improve efficiencies, enhance technologies and effectively improve customer service, efforts during the 2010 financial year included the rationalisation of branch servers, the introduction of additional forex branches and an upgrade of online statement systems, amongst other initiatives. The most significant contributor to these objectives was, however, realised in the form of the successful completion of the core banking system replacement. This intensive and complex project, which dominated the period, was initiated in mid-2008 and came to a head during 2010, when national systems were switched over at the beginning of August and after several months of operating in parallel.

The new core banking system environment was introduced with a view to enhancing business technologies, improving customer service and optimising efficiencies, whilst also addressing a number of key objectives, including branch automation, extended reporting capabilities, consolidated customer enquiries, rule-based processing facilities, product parameterisation, anti-money laundering monitoring and more. The project dubbed 'M2E' represents the bank's 'Mission to Excellence' and its successfully implemented systems now represents a cornerstone in the bank's path to excellence.

Following the intense activities of the 2010 financial year, it is envisaged that the ensuing period will be largely geared towards optimisation of the various efficiencies by way of maximising the capabilities of the system, whilst not losing sight of supplementary modules which are targeted for implementation so as to meet other business requirements. The introduction of corporate banking services as an extension of electronic banking products is a further strategic objective which sets out to enhance both product range and services to corporate customers, while the feasibility of mobile banking solutions is to be explored as a means of broadening the accessibility and mobility of Al Baraka Bank's products and services. In pursuing underpinning strategies, due consideration will be given to the adoption of matured technologies, widely recognised as effective contributors, as well as an extension to existing technologies, as appropriate. These considerations include the rationalisation of general office equipment, voice-over-ip telephony between branches and supplementary video conferencing systems, together with the re-engineering of business processes, including systems automation at various levels.

Although the period ahead promises to be as challenging as the past financial year, some comfort may be drawn from the fact that a number of base technologies have already been established and, while the local and global business landscapes shift in the winds of technology and time, the bank will work to adapt and exploit technologies to support its sustainability and growth.

Corporate Governance Report

Introduction

Al Baraka Bank is committed to sound corporate governance and the implementation of ethical and moral behaviour in all its business operations and practices. The board of directors endorses the Code of Corporate Practices and Conduct as recorded in the King Report on Corporate Governance for South Africa 2009 (King III), which came into effect on 01 March 2010.

The board of directors has adopted a balanced approach with regard to its implementation of the principles set out in King III, acknowledging that good governance represents a journey, as opposed to a destination.

During the year under review, Al Baraka Bank, through the oversight of the management committee, which was established to assess the requirements of King III and to ensure that the bank's governance framework was appropriately adjusted to address the new governance requirements, made significant progress in its application of King III.

Some of these developments included the following:

- The board and board committee charters were harmonised with the requirements of King III, where appropriate; and
- An extensive review of King III was conducted and, as a result thereof, a comprehensive plan of action was developed to address issues where appropriate gaps had been highlighted.

Some of the key areas of King III receiving consideration include the governance of risk and information technology. In this regard, the board of directors acknowledges that it is ultimately responsible for the governance of risk and information technology. An extensive process of developing a combined risk assurance model has commenced, whilst management will be conducting a review of the integrated reporting guidelines recently released for public comment.

Through its support of King III, the board of directors has confirmed the importance of conducting the business of Al Baraka Bank with integrity and is committed to the effective implementation of good corporate governance practices which are fundamental to the success and sustainability of the business.

Corporate governance ethos, ethical leadership and corporate citizenship

The board of directors, assisted by the directors' affairs committee, is responsible for corporate governance. The board of directors also ensures that management, through the development of a code of conduct, formulates a culture of ethical conduct and establishes values in terms of which Al Baraka Bank seeks to conduct its business.

Compliance with all applicable legislation, regulations and codes which form part of the bank's legal and regulatory framework is a fundamental component of the bank's culture.

Board of directors

Structure

The board of directors bears ultimate responsibility for the governance of the bank. The board acknowledges that its fundamental responsibility is the successful performance of the bank and, in seeking to give effect to this objective, the board recognises that the legitimate interests and expectations of all its stakeholders must be taken into account.

Al Baraka Bank has a unitary board structure, with the roles and functions of the chairman and chief executive being separate and distinct. The board, as at 31 December 2010, comprised twelve directors, five of whom are independent non-executive directors and four of whom are non-executive directors. The remaining three executive directors consisted of the chief executive, the deputy chief executive and the financial director.

The independence of directors is determined in accordance with the definitions set out in King III. The requirements of the new Companies Act are also taken into consideration in relation to the members of the audit committee, all of whom need to be classified as independent non-executive directors. The independence of the board is a function conducted by the directors' affairs committee. The board subscribes to the view that an independent director should be independent in character and judgement.

The board has also assessed the independence of the independent non-executive directors who have served more than nine years on the board, namely Adv. AB Mahomed SC and Mr M Youssef Baker. The board is satisfied that their independence of character and judgement remains unaffected. The chairman is non-executive, but not independent as defined. However, the board is of the view that Mr Yousif's vast experience and knowledge of the banking industry and of Al Baraka Banking Group as a whole, makes it appropriate for him to hold the position of chairman. As such, a lead independent director has not been appointed.

The presence of the independent non-executive directors provides independent thought and objectivity to board discussions, thereby ensuring that board decisions are adequately shaped from an independent perspective. Given their different set of skills, knowledge and expertise, the directors are able to discuss board matters constructively and vigorously, acting in the best interests of the bank and its stakeholders at all times.

Based on the nature of the business environment within which the bank currently operates, taken in conjunction with the magnitude and complexity of its business operations, the board is satisfied that it possesses an appropriate ratio of non-executive directors to executive directors.

The board has appointed Mr McLean, who held the position of deputy chief executive until 2 March 2011, as a non-executive director on 3 March 2011.

Skills and attributes of directors
Al Baraka Bank's board of directors possess a wide range of skills, experience and knowledge, key to enabling the directors to successfully meet the challenges presented by the operating environment. Through this balanced mix of skills and attributes, the directors are able to fulfill their fiduciary obligations in a responsible and competent manner.

In order to ensure that the composition of the board remains appropriate to the ever-changing operating environment, the directors' affairs committee regularly reviews the composition, skills, experience and demographic profile of board members.

Strategy
As the body ultimately responsible for the overall performance of the bank, the board is responsible for formulating the bank's strategy. The board also monitors management in its implementation of board-approved plans and strategies.

Delegation of authority
The board retains effective control of the business through a governance structure which consists of various board committees. These board committees provide the board with a specialised focus in terms of key areas of the bank's operations.

The board of directors, pursuant to a process of review, delegates appropriate powers of authority to the executive directors in order to manage the business affairs of the bank on a day-to-day basis. The bank has defined its own levels of materiality, reserving specific powers to itself. By delegating authority, the board of directors does not in any way whatsoever, abdicate its duties and responsibilities. Delegated authorities are reviewed on a regular basis by the bank, having due regard for the directors' statutory and fiduciary responsibilities, whilst simultaneously considering strategic and operational effectiveness and efficiencies.

Director training and induction
The financial services environment is subject to numerous and ongoing changes, making it essential that the directors are aware of such developments which could potentially have an impact upon the operations of the bank. Director training and development in these key areas therefore remain an ongoing area of focus.

Directors are encouraged to attend external training programmes, such as the Banking Board Leadership Programme, offered through the Gordon Institute of Business Science, as well as other training programmes relevant to the operations of the bank. Key training programmes in this regard include risk management and corporate governance. During the course of the year, such training was conducted outside of scheduled board meetings. Where appropriate, external service providers are retained to conduct specialised training, such as that provided to the directors concerning the new Companies Act requirements.

Newly appointed directors receive a governance portfolio which includes detailed information relevant to the business of Al Baraka Bank, such as mandates, policies, financial reports and information, governance structures and key pieces of legislation. In addition, newly appointed directors are introduced to management and members of staff on a one-on-one basis. Through this process of induction, directors are able to acquire a thorough understanding of the business.

In terms of South African banking laws and regulations, all directors of a bank must be approved by the South African Reserve Bank.

Board evaluation
During the year under review, the board and board committees conducted a series of evaluations with the objective of determining their effectiveness, as well as that of the respective members. The performance of the chairman and chief executive is also assessed on an annual basis.

The evaluation process is facilitated by the directors' affairs committee, which, upon the completion of the evaluation, makes recommendations to the board. No material issues were noted pertaining to the board or board committees' performance evaluation.

During the year under review, the board of directors conducted an assessment of the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy, as implemented by the bank. Based on the outcome of the assessment, the board of directors is satisfied that the bank successfully achieved corporate governance objectives, as determined by the board.

Board meetings and procedures
In terms of its articles of association, the board is required to hold four meetings a year. However, when circumstances dictate the need, additional ad hoc meetings may be held. As part of the board planning process, an annual schedule of board and board committee meetings is prepared in consultation with the directors, all of whom are expected to attend board meetings and meetings of the relevant committees on which they serve.

Where directors are not in a position to attend the meetings in person, Al Baraka Bank provides tele-conferencing facilities, thereby enabling the directors to participate in board discussions and decisions.

The bank has a policy in place determining how directors' interests in contracts are to be addressed. Such disclosure takes place at every board and board committee meeting, with directors being required to recuse themselves from the discussion of those matters in which they have an interest. This policy has been formulated in accordance with the provisions of the new Companies Act.

Non-executive directors have unrestricted access to all the bank's information, records, documents and property. Where it is deemed

Corporate Governance Report
(continued)

necessary, directors are entitled to seek independent professional advice in order to fulfill their duties and obligations as directors. In such instances, the independent professional advice is at the cost of the bank. Directors may also meet separately with management, without any executive directors in attendance. Such meetings are co-ordinated through the office of the chief executive.

The board of directors has developed a formal board charter, with some of its key features being as follows:

- Board composition;
- Determination of the bank's objectives and plans to implement these objectives;
- Formulation of the bank's strategic plan;
- Determination of the board committees;
- Implementation of effective risk management processes;
- Monitoring the performance of the chief executive, the executive directors and the executive management team;
- Approval of budgets;
- Compliance with laws and regulations;
- Reputational risk;
- Stakeholder communication; and
- Director selection, orientation and evaluation.

Membership and attendance: board meetings in 2010

Member	March	June	September	November
AA Yousif (Chairman)	✓	✓	✓	✓
SA Randeree (Vice chairman)	✓	✓	✓	✓
F Kassim	✓	✓	✓	✓
A Lambat	✓	✓	✓	✓
Adv. AB Mahomed SC	✓	✓	A	✓
MS Paruk	✓	✓	✓	✓
YM Paruk	✓	✓	✓	✓
OA Suleiman	✓	✓	✓	✓
M Youssef Baker	A	✓	✓	✓
SAE Chohan (Executive director and chief executive)	✓	✓	✓	✓
MG McLean (Executive director and deputy chief executive)	✓	✓	✓	✓
MJD Courtiade (Executive director and financial director)	A	✓	✓	✓

✓ = Attendance A = Apology

Board committees

The board of directors recognises that board committees constitute an important element of the governance process. The board is assisted by the audit committee, the risk and capital management committee, the board credit committee, the directors' affairs committee and the remuneration committee.

All of the board committees possess formal terms of reference, which are subject to annual review by the board of directors. The terms of reference of the board committees now read consistently with the requirements of King III. In giving effect to their terms of reference, board committees may also seek independent professional advice, where this is deemed necessary.

The establishment of board committees does not, however, serve to exonerate the board from complying with its legal responsibilities. With the exception of the remuneration committee, the company secretary is secretary to the board committees.

In seeking to give effect to the business of the bank, several management committees have also been established. These management committees play a meaningful role in assisting the board and board committees in fulfilling their respective duties and obligations. The management committees which have been established include the executive management committee (EXCO), the executive credit committee (ECC), the management risk committee, the assets and liabilities committee (ALCO), the

FICA executive committee and the IT steering committee. Having conducted a review of the board committees, the board of directors is satisfied that the board committees have successfully fulfilled their mandates.

Audit committee
The role of the audit committee is to assist the board of directors in discharging its responsibilities by, inter-alia:

- Ensuring the identification and management of financial risks, the integrity of reporting practices, financial controls and integrated reporting, such as sustainability reporting, per statutory requirements;
- Reviewing a documented assessment of key assumptions regarding the going concern premise; and
- Developing and maintaining effective systems of internal control.

The responsibilities of the audit committee fall into four main areas, namely:

- Reviewing the internal control structure, including financial control, accounting systems and reporting;
- Reviewing and overseeing the internal audit function;
- Liaising with external auditors; and
- Monitoring the bank's compliance with legal and statutory requirements.

During the year under review, the audit committee, which consists solely of independent non-executive directors, met on five occasions.

Apart from the members of the audit committee, meetings were also attended by the executive directors, representatives from the internal and external auditors, the compliance officer and the risk manager. The audit committee also met with the auditors independently of management in November 2010.

The members of the audit committee were approved at the bank's annual general meeting in June 2010.

The audit committee has a policy regarding non-audit fees, the purpose of which is to prevent the independence of the auditors from being compromised during the annual audit.

The audit committee conducted a review of, and is satisfied with the expertise, experience and adequacy of the resources of the bank's finance function.

The audit committee reviewed the following matters in 2010:

- The integrity of the financial statements together with a recommendation for approval;
- Various reports from internal audit, including the internal audit summary report and the control issues log, as well as the internal audit report from Al Baraka Banking Group;
- Progress in terms of the 2009/10 audit functional plan;
- Shariah audit reports;
- Compliance reports addressing various legal and regulatory provisions;
- IT progress reports;
- Taxation matters;
- Issues of corporate governance, including the process of corporate governance, as set out in the Regulations relating to the Bank's Act and King III;
- Determination of audit fees;
- Status of policies and procedures;
- Various special assignments conducted by internal audit;
- External audit reports, including the report to the board and the National Credit Regulator in compliance with Regulation 68 of the Regulations to the National Credit Act; and
- A review of the audit committee charter.

Auditor independence
At the annual general meeting held in June 2010, Ernst & Young Inc. was re-appointed by the shareholders as auditors of Al Baraka Bank until the next annual general meeting.

The audit committee is satisfied with the independence of the external auditors.

Membership and attendance: audit committee meetings in 2010

Member	*February*	*March*	*June*	*September*	*November*
MS Paruk (Chairman)	✓	✓	✓	✓	✓
A Lambat	✓	✓	✓	✓	✓
Adv. AB Mahomed SC	✓	✓	✓	✓	✓

✓ = *Attendance*

The audit committee is satisfied that it has discharged its responsibilities in accordance with its charter.

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MS Paruk
Chairman: audit committee

Corporate Governance Report
(continued)

Risk and capital management committee
The role of the risk and capital management committee is to assist the board and management in successfully managing, communicating, overseeing and taking responsibility for the governance of risks across the bank.

The risk and capital management committee's terms of reference record various responsibilities, which include:

- Assisting the board in its evaluation and monitoring of the adequacy and efficiency of risk management policies, procedures, practices, controls and plans applied within the bank in the day-to-day management of its business;
- Developing a risk mitigation strategy to ensure that the bank manages risk in an optimal manner and to assist the board in ensuring that a formal risk assessment is undertaken at least annually;
- Identifying and regularly monitoring all key risks and key performance indicators to ensure that its decision-making capability and accuracy of its reporting is maintained at a high level;
- Determining the levels of risk tolerance/appetites at least once a year, set limits for the risk appetites and monitoring that such risks taken are within the tolerance and appetite levels;
- Having in place frameworks and methodologies to anticipate unpredictable risks;
- Ensuring that management considers and implements appropriate risk responses identified and that these risks are subsequently recorded in a risk register;
- Approving new products and ensuring that adequate measures have been taken to address all related risks before making recommendations to the board for the approval of such products; and
- Ensuring that the risk management process is in line with the group's risk management strategy.

During the course of 2010, the risk and capital management committee met on five occasions. In addition to the members, the meetings of the risk and capital management committee were also attended by the chief executive, the compliance officer and the manager: internal audit.

Membership and attendance: risk and capital management committee meetings in 2010

Member	March	May	June	September	November
A Lambat (Chairman)	✓	A	✓	✓	A
MJD Courtiade	A	✓	✓	✓	✓
Adv. AB Mahomed SC	✓	A	✓	✓	A
MS Paruk	✓	✓	✓	✓	✓
YM Paruk	✓	A	✓	✓	✓
OA Suleiman	✓	✓	✓	✓	✓
M Youssef Baker	A	✓	✓	✓	✓
Y Nakhooda (Manager: Risk)	✓	✓	✓	✓	✓

✓ = Attendance   A = Apology

The risk and capital management committee is satisfied that it discharged its responsibilities in accordance with its charter.

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A Lambat
Chairman: risk and capital management committee

Credit committee
The role of the credit committee is to review and manage the bank's overall credit risk strategy and to approve advances in terms of board-approved delegations.

The board credit committee gives effect to its role by:
- Reviewing and recommending to the board any change in the strategy, marketing and business plans in respect of any financing activities of the bank;
- Reviewing the bank's credit risk management policy for adequacy and ensuring that such policy is approved by the board;
- Assessing the adequacy of Al Baraka Bank's provisioning policy, when deemed necessary, including the review of provisions where credit losses are incurred;
- Monitoring the credit recovery processes and the progress made on all matters handed over for legal action, including facilities which are long-outstanding and which require additional attention and supervision;
- Approving the write-offs of debtor accounts within its delegated authority; and
- Performing stress testing scenarios in respect of credit risks on a six-monthly basis.

The credit committee met four times during the year under review, with the financial director and management representatives from the credit and legal functions being in attendance at the meetings.

Membership and attendance: credit committee meetings in 2010

Member	*March*	*June*	*September*	*November*
OA Suleiman (Chairman)	✓	✓	✓	✓
SAE Chohan	✓	✓	✓	✓
MG McLean	✓	✓	✓	✓
MS Paruk	✓	✓	✓	✓
SA Randeree	✓	✓	✓	✓
EM Hassan (General manager: credit)	A	✓	✓	✓

✓ = Attendance *A = Apology*

The credit committee is satisfied that it discharged its responsibilities in accordance with its charter.

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OA Suleiman
Chairman: credit committee

Directors' affairs committee
The role of the directors' affairs committee is to ensure the efficient functioning of the board in the interests of good corporate governance. The directors' affairs committee gives effect to its role by:
- Identifying, evaluating and recommending nominees to the board of directors and other entities, in terms of an agreed process;
- Monitoring the adequacy and effectiveness of the bank's corporate governance structures;
- Reviewing the structure, size and composition of the board, taking into account the requirements of board committees and making recommendations to the board regarding any required changes;
- Regularly reviewing the composition, skills, experience and other qualities required for the effective functioning of the board;
- Considering methodologies for the annual assessment of the performance of the board and board committees, together with the contribution of individual directors by making recommendations to the board;
- Maintaining a board directorship continuity programme, which includes:
  - Succession plans for the chairman and board sub-committees; and
  - Succession plans for executive directors, executive management and other senior management; and

Corporate Governance Report
(continued)

- Providing a forum for non-executive directors to meet without executive directors and management.

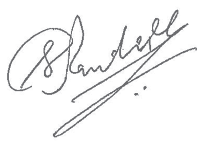
The directors' affairs committee met on two occasions during the course of 2010. In terms of the Banks Act, membership of the directors' affairs committee comprises solely non-executive directors, with the chief executive attending meetings by invitation.

Membership and attendance: directors' affairs committee meetings in 2010

Member	*March*	*September*
SA Randeree (Chairman)	✓	✓
F Kassim	A	✓
M Youssef Baker	✓	✓

✓ = Attendance *A = Apology*

The directors' affairs committee is satisfied that it discharged its responsibilities in accordance with its charter.



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SA Randeree

Chairman: directors' affairs committee

Remuneration committee

The purpose of the remuneration committee is to ensure that the correct balance exists between the interests of employees and those of shareholders, such that the bank attracts and retains the expertise required to achieve its strategy.

The remuneration committee is:

- Responsible for making recommendations to the board on matters such as succession planning at both senior management and executive management level, general staff policy, performances, remuneration, benefits, bonuses and incentive schemes;
- Required to ensure that the correct calibre of senior executive management is attracted, retained, motivated and rewarded;
- Tasked with ensuring that a comprehensive employment equity policy exists and that this addresses, amongst other things, discrimination, disputes, affirmative action and disciplinary action;
- Responsible for implementing the bank's employment equity policy which addresses, amongst other things, disputes, affirmative action requirements and disciplinary action; and
- Responsible for assisting in creating an environment where employees who demonstrate initiative, enterprise, ability, effort and loyalty are able to develop rewarding careers within the bank.

The remuneration committee met twice during the course of 2010.

Membership and attendance: remuneration committee meetings in 2010

Member	March	June
Adv. AB Mahomed SC (Chairman)	✓	✓
SAE Chohan	✓	✓
YM Paruk	✓	✓
SA Randeree	✓	✓
OA Suleiman	✓	✓

✓ = Attendance

The remuneration committee is satisfied that it discharged its responsibilities in accordance with its charter.

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Adv. AB Mahomed SC

Chairman: remuneration committee

Company secretary

A key function of the company secretary's portfolio is to provide the board, as well as the individual directors, with guidance as to how their responsibilities should be discharged in the best interests of Al Baraka Bank. The company secretary also provides a source of guidance and advice to the board, and within the bank, on matters pertaining to ethics and good governance.

The directors have access to the services of the company secretary, who is also responsible for facilitating the induction of and training for directors.

Going concern status

The board has considered and assessed the going concern basis, as set out in the financial statements at the year end. The directors confirm that they are satisfied that Al Baraka Bank has adequate resources to continue in business for the foreseeable future.

The assumptions underlying the going concern status of the bank are considered at the time of the approval of the annual financial statements and again at the interim reporting stage.

Ethics

The board of directors assumes responsibility for developing an ethical corporate culture within the bank, based on ethical leadership. The bank's code of conduct is reviewed on a regular basis in order to ensure that it correctly reflects the bank's values.

The code of conduct has been formulated in such a manner that it promotes core ethical values, which serve to facilitate effective decision-making across the organisation.

Through regular training, the bank's ethical standards, as set out in the code of conduct, are integrated into the bank's operations.

Al Baraka Bank has an independently-operated anti-fraud help-line in terms of which ethical and related incidents may be reported.

Financial Sector Code

Towards the end of 2010, a draft Financial Sector Code was released for public comment.

This draft represents the culmination of much hard work and seeks to transform the Financial Sector Charter, which represented a voluntary reporting framework, into a legally-binding sector code.

Al Baraka Bank fully supports these developments and looks forward to the introduction of the Financial Sector Code.

Sustainability Report

Introduction

A King III recommendation that companies move towards a system of integrated reporting has resulted in a step-change in the way business enterprises undertake corporate reporting.

Existing reporting models, based largely on financial information and disconnected sustainability reports, have proved ineffective as they have failed to provide stakeholders with information necessary for an effective assessment of an organisation.

Integrated reporting, on the other hand, gives consideration to the fact that the success of an organisation is linked to society, the environment and the global economy. In effect, it examines whether an organisation's governing structure has identified the social, environmental, economic and financial issues which impact on such an organisation's business and whether these issues have been appropriately incorporated into its strategy. In short, integrated reporting allows stakeholders to assess the ability of an organisation to create and sustain value in the short, medium and long-term.

Al Baraka Bank's efforts to implement integrated reporting

We at Al Baraka Bank understand that integrated reporting is a journey and does not merely involve an extract from the financial statements and sustainability reports. Accordingly, the bank is in the process of preparing an integrated report, reflecting how to effectively partner with our stakeholders and to utilise Shariah-compliant banking as a means to ensure economic prosperity for all parties, whilst simultaneously contributing to community upliftment, minimising the bank's impact on the environment and striving to be an excellent company for which to work. This report reflects the progress made to date on this journey:

Scope of the report

The integrated report considers issues and objectives under the current reporting cycle. In terms of geographic scope, input from the bank's various national branches will be taken into account.

The Global Reporting Initiative reporting principle is used as a guide to assist in the preparation of the report. Reference is also to be made to supporting documentation, such as a detailed sustainability report and annual financial statements.

Overview of the company

Al Baraka Bank is committed to providing Shariah-compliant banking, within the South African framework, to all South Africans. The bank's vision is to meet the financial needs of the community it serves by conducting business ethically and in accordance with Islamic beliefs, practicing the highest professional standards and sharing the mutual benefits with customers, staff and shareholders who participate in the bank's business success. The bank recognises that society requires a fair and equitable financial system, one which rewards effort and contributes to the development of the community. Al Baraka Bank is of the view that it is able to provide such a system.

Organisational and governance structure

To date, Al Baraka Bank has endeavoured to ensure that it remains in line with good corporate governance practices through the formation of its own King III committee, an internal body tasked with the implementation of the recommendations of King III within the bank's current governance framework. This committee aims to ensure improved transparency of information and the adoption of international best standards.

Al Baraka Bank also endeavours to conduct its banking activities in a Shariah-compliant and ethical manner, which prohibits:

- The collection or payment of interest;
- Transactions involving undue risk and speculation; and
- Investing in prohibited activities.

In keeping with its aim of providing ethical banking, some of the guidelines followed by Al Baraka Bank include adhering to Shariah standards published from time to time by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), not investing in non-Shariah-compliant fixed-income instruments/ securities, not holding cash balances in interest-bearing accounts or assets and not investing in companies involved in alcohol, tobacco, pork, casinos, hotels or conventional banks.

Circumstances under which the bank operates

The social, economic, environmental and cultural factors which influence the way in which the bank makes decisions and creates value are summarised hereunder:

Social

Al Baraka Bank, in line with its vision of providing a financial system which contributes to the development of the community and through its Charitable and Welfare Committee, has in place a comprehensive corporate social investment programme designed to promote the social development of needy individuals and organisations by actively addressing socio-economic challenges in five key sectors, namely:

- Education;
- Humanitarianism;
- Health;
- Security; and
- Poverty alleviation.

Al Baraka Bank has extended its corporate social investment programme to include providing staff with study loans. The bank has also afforded members of staff the opportunity to present to it social projects within their communities which may require assistance. The bank has, wherever possible, attempted to include such projects within its broad corporate social investment programme. The bank has also actively kept the community aware of legislative and banking developments by hosting and sponsoring various seminars and presentations, as well as being the corporate sponsor of the Certificate in Islamic Law course at the University of KwaZulu-Natal for many years.

Economic
Economic factors which influence the way in which the bank creates value include good governance, compliance and ethics, Shariah-compliant banking, responsible financing, risk management and the delivery of shareholder value.

Environmental
Al Baraka Bank is conducting an assessment into ways in which it may become more environmentally sustainable and has implemented the following measures:
- The use of energy-saving light-bulbs throughout the company;
- The construction of its head office building in such a way as to allow natural light to filter through, thus minimising the need for artificial lighting;
- The construction of an atrium in the head office building, complete with indigenous plants, so as to improve the quality of air circulation in the building; and
- The sorting of recyclable waste materials.

Enhancements to these initiatives will be carried through in the years ahead.

Cultural
The bank aims to create a culture which nurtures talent, accelerates transformation and keeps employees satisfied to the extent that they perform to, and beyond, their potential.

In addition, the company is committed to the practice of fair, professional and scientific recruitment, so ensuring that the bank places suitable talent into available positions, thus promoting performance excellence. In an effort to streamline the selection process, the bank has given effect to a more scientific approach, which includes targeted selection and competency-based questioning. This, together with the use of psychometric testing and assessments for specific positions, enables the bank to ensure that the best available talent is placed most appropriately.

Further initiatives for the benefit of existing staff include training for managers and employees, the inception of a graduate programme for university graduates, an employee health and wellness programme, an HIV/AIDS policy, Islamic educational initiatives, employee recognition awards and study bursaries for staff.

The bank is also totally committed to the ideal associated with employment equity and strives to recruit staff from various historically disadvantaged race groups in South Africa, while also ensuring that women increasingly feature in top management positions. The bank has leveraged off the offerings provided by the Banking Seta and obtained sponsorship for numerous management and executive courses locally, nationally and internationally with members of staff realising the benefits of such courses.

An assessment of the bank's relationship with its stakeholders
The bank has reviewed and assessed the nature of its relationship with various stakeholders, as summarised hereunder:

Customers
Customers provide the bank with a business purpose and, therefore, client service excellence remains a key priority. The bank utilises a number of different methods for communicating with its clients, including the print media, radio advertising, the website and SMS communication. By virtue of their significance to the business, new clients are contacted on a random basis so as to ascertain their Al Baraka Bank experiences.

Feedback received has been very encouraging and, through this process, client service issues are highlighted and addressed in an efficient manner. Al Baraka Bank also has a dedicated customer service centre sharecall telephone number for the benefit of clients and this number appears on the bank's promotional materials.

Al Baraka Bank continuously undertakes customer analyses in an effort to evaluate the effect of its marketing activities and those of its competitors. This is carried out so as to better understand customer behaviour and perceptions. Various projects have been undertaken in specific market segments to understand existing customer behaviour, the drivers and detractors of customer purchase decisions and customers' unmet needs.

The bank uses a variety of mechanisms and channels so as to regularly engage with customers, ensuring that the bank remains truly customer-centric in all its business operations. Normal business interaction mechanisms include:
- Points of presence (sales and service employees);
- Relationship managers;
- Self-service centres and ATMs;
- Internet banking feedback facility;
- Customer call centre (including action line);
- Marketing and advertising;
- Media releases;
- SMS communication; and
- Website (www.albaraka.co.za).

New products are constantly being considered in order to make banking easier for customers.

Employees
The bank's members of staff are regarded as being central to the success of the business. As such, Al Baraka Bank strives to ensure that it attracts, develops and retains the best people. In order to assist members of staff reach their true potential, various training programmes are identified by means of individual development plans.

Sustainability Report
(continued)

A variety of broad-based communication channels are used to continuously engage with staff. These include:

- The chief executive's address to all staff following quarterly board meetings;
- The intranet site, which provides members of staff with online access to information;
- A contact centre providing an email and telephonic contact point regarding employee issues;
- Intranet facilities;
- Employee self-service facilities for leave and other applications; and
- An external fraud hotline.

The bank has also participated in a 'Best Company To Work For' survey for the past three years, which requires staff to provide feedback on the company's working environment.

Based on the results of the survey, the bank has implemented action plans geared to deal with areas in which members of staff have indicated the need for improvement.

Shareholders

General communication with shareholders is undertaken through the bank's annual report, website, circulars and email. Shareholders are encouraged to attend the bank's annual general meeting, where the chairmen of the respective board committees, and including the Shariah Supervisory Board, are present to address queries which shareholders may have.

The board supports the view that informed shareholders not only have an appreciation for the business, but are capable of making informed decisions, which will enhance the bank. Any queries that shareholders may have are either dealt with by the bank's customer service department or, if necessary, are escalated to the company secretary and the chief executive.

Community

The bank engages with the community in the following ways: Through personal interaction, community service events, print media, special publications, its annual report, SMS and the website.

Such communication enables the bank to understand the needs of the community in order to serve the community more effectively, especially in light of funding required for and sponsorship of various community projects.

The bank also invites select clients and members of the public to attend the Islamic banking module of the Islamic Law course which it sponsors at the University of KwaZulu-Natal.

Regulators/external governing bodies

The bank is currently a member of the Banking Association of South Africa and its managers are on the mailing list of its various committees. Al Baraka Bank is also regarded as the leading banking authority on Islamic banking, as it is the only fully-fledged Islamic bank in South Africa. It has provided the National Treasury with important inputs which have been included in the amendments to South African Income Tax legislation.

Our strategic objectives, competencies and key performance indicators

Strategic objectives for the year under review included increased profitability, product innovation, enhanced technology and internal processes, improved customer service and staff satisfaction.

Increased profitability:

- Implementation of an electronic banking product for corporate clients during the second quarter of 2011;
- The aggressive marketing of existing and corporate electronic banking products;
- The possible introduction of a cheque account product in 2011/12;
- Increasing qualifying capital and reserves to meet the growth requirements;
- A growth target of 15% for the advances book;
- Proceeding with a business re-engineering exercise with a view to streamlining processes and improving the cost-to-income ratio; and
- Introducing a full foreign exchange product and establishing correspondent banking relationships and intra-groups with other external banks as soon as the licence is granted by the Regulatory Authority.

Product innovation:

- Debit Card and enhanced electronic banking product, including corporate and business banking;
- Addition of Ijarah (leasing) to the bank's bouquet of products; and
- Expand collective investment product range.

Enhanced technology and internal processes:

- Transfer from the legacy Midas to the Equation banking system has been completed;
- Credit application processing system;
- Enhanced disaster recovery system;
- Budgetary planning and monitoring system; and
- Sharepoint (collaboration tool).

Improved customer service and staff satisfaction:

- Improve customer service;
- Increase the number of finance and investment customers;
- Reduce dormant accounts; and
- Staff satisfaction – to control staff turnover and improve staff retention. A board strategic planning workshop was scheduled for March 2011, specifically for the bank to review its strategic planning objectives and to include integrated reporting as an objective.

Identification of risks and opportunities
Risks and opportunities will be identified in the next report.

An analysis from our leadership regarding their views on the organisation
The report will include comments from the bank's leadership regarding views about the company and the way forward.

Conclusion

The bank aims, through its integrated report, to record how the company has created and sustained value within the communities in which it operates, as well as how it may have impacted negatively on the community.

An additional aim is to report how the bank believes it may, in the coming years, build on positive aspects and eradicate any negative impacts it may have created.

This report demonstrates how Al Baraka Bank fulfils its governance duties and responsibilities, providing ethical leadership, ensuring effective communication with stakeholders and ensuring that not only does it operate as a responsible corporate citizen, but that it is also seen to be operating as such.

Compliance Report

The primary role of Al Baraka Bank's compliance function is to monitor regulatory and reputational risk.

Regulatory risk is understood to be the risk that the bank could be exposed to penalties and sanctions for not complying with statutory, regulatory and supervisory requirements imposed by the South African Reserve Bank and any other regulatory bodies by which Al Baraka Bank is regulated. Reputational risk is the risk that the bank could be exposed to negative publicity resulting from a contravention of laws applicable to the bank.

The compliance function sets out to actively assist management in complying with both the letter and spirit of the law and supervisory requirements. The compliance officer performs under an authority delegated by the board, in terms of a board-approved compliance charter and enjoys unrestricted access to the chief executive, the audit committee and the chairman of the board.

Updates or reports are regularly submitted to the audit committee, board and the South African Reserve Bank regarding matters of compliance. There were no material issues of non-compliance that had to be reported during the 2010 financial year.

Significant regulatory developments which had an impact on Al Baraka Bank during the period under review included the following:

Anti-money laundering control and combating of terrorism legislation

The bank employed significant time, effort and resources in order to devise, implement and update appropriate policies and procedures, as well as amendments to the system processes and suitable staff training in order to comply with all applicable legislation. Regardless of the fact that the deadline for client identification and verification expired on 30 September 2006, the bank's focus on compliance continues being maintained by dedicated branch staff, the anti-money laundering officer and compliance officer.

The new Equation Islamic Banking and Branch Automation system was implemented on 1 August 2010, complete with its own Watch List Checking Module. The system, which replaced the Midas system, assists with name matching on terrorist watch lists. This function, together with the need to detect and report suspicious money laundering transactions, has been greatly enhanced by the introduction of the new banking system.

Cash threshold reporting

The compulsory daily reporting of all cash and foreign exchange (excluding travellers' cheques) transactions of R25 000 or more commenced at the beginning of December 2010. Extensive system enhancements were made to enable the timely submission of cash threshold reports. Cash threshold reporting not withstanding, the bank is still required to file normal suspicious transaction reports to the Financial Intelligence Centre in terms of the Financial Intelligence Centre Act.

Financial Advisory and Intermediary Services Act (FAIS Act)

Al Baraka Bank's application to increase the various categories of services it offers in terms of its existing licence, having been approved, allowed for the implementation of various activities geared towards ensuring compliance with the Act.
These included:

- The identification and appointment of additional key individuals and representatives, the establishment of training requirements and the updating of the required register;
- A review of processes, communication, promotional and other materials to align with the requirements of the Act and codes of consumer protection;
- The up-skilling of staff to meet the qualification requirements of FAIS; and
- The updating of the bank's FAIS policy and procedure document.

Home Loan and Mortgage Disclosure Act

This legislation was introduced to level the playing fields in terms of access to residential property finance by formerly disenfranchised members of society. In this regard, extensive system changes were necessitated by the Act.

The Office of Disclosure in the Department of Human Settlements is furnished with the required statistics on an annual basis.

Monitoring

Monitoring is regarded as a vital component of the compliance function. Three internal control officers – one each in the Durban, Gauteng and Athlone regions – are responsible for assisting with the monitoring function. They have assisted in monitoring the bank's compliance with the Financial Advisory and Intermediary Services Act, Anti-Money Laundering, National Credit Act and the Code of Banking Practice. Their reports are tabled at monthly management EXCO and quarterly FICA EXCO meetings.

Shariah Report

In the name of Allah, the All Compassionate, the Most Merciful

To the shareholders of Albaraka Bank Limited

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Al Baraka Bank during the year under review. We have also conducted our review to form an opinion as to whether Al Baraka Bank has complied with Shariah rules and principles and with the rulings set out by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Al Baraka Bank's management is responsible for ensuring that the bank complies with Islamic Shariah rules and principles. It is the Shariah Supervisory Board's responsibility to form an independent opinion, based on the review of the operations of Al Baraka Bank and to report thereon.

We conducted our review, which included examining directly or indirectly through the Shariah Department, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the bank, including interviews with members of management.

The scope of the audit included:

- Financial statements;
- Murabaha financing;
- Musharaka financing;
- Equity Murabaha transactions;
- Profit distribution;
- Disposal of impermissible income; and
- Foreign exchange transactions.

We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Al Baraka Bank has not violated Islamic Shariah rules and principles.

In our opinion:

1. The contracts, transactions and dealings entered into by Al Baraka Bank during the year under review are generally in compliance with Shariah rules and principles;
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shariah rules and principles;
3. An amount of impermissible income has been designated to be paid to charity;
4. In relation to certain transactions which were erroneously transacted, we directed management to rectify the same;
5. Zakah of the bank was calculated as 24 cents per share. Shareholders are advised to discharge this Zakah individually, as the bank is not mandated to discharge this on their behalf.

We beg the Almighty to grant us all success in this World and the Hereafter.

………………………

Dr Abdus Sattar Abu Ghudda
Chairman

………………………

Sheikh Mahomed Shoaib Omar
Member

………………………

Mufti Shafique Ahmed Jakhura
Member

08 February 2011

Shariah Supervisory Board

Shariah Supervisory Board of Al Baraka Bank

The Shariah Supervisory Board is an independent body comprising specialist jurists in Islamic commercial jurisprudence and is entrusted with directing, reviewing and supervising the activities of Al Baraka Bank, thus ensuring that the bank complies with Shariah.

The board sets out to ensure that all Shariah matters regarding Al Baraka Bank are dealt with in a professional manner and in strict accordance with the standards set by AAOIFI.

The Shariah Supervisory Board's rulings and resolutions are binding on the bank.

It is the responsibility of the Shariah Supervisory Board to carry out regular audits of transactions and, based on its reviews of the bank's business operations, to form an independent opinion.

Al Baraka Bank's Shariah Supervisory Board comprises:
Dr Abdus Sattar Abu Ghudda (Syrian) –
Dr Ghudda is the senior Shariah consultant for the Al Baraka Banking Group. He is also a director of the Department of Financial Instruments at Al Baraka Investment and Development Company and is a member of the Shariah Supervisory Boards of several Islamic financial institutions. He is an active member of the OIC Islamic Fiqh Academy and AAOIFI. He was responsible for research and compilation of the Encyclopaedia of Fiqh of the Kuwait Ministry of Awqaf and Islamic Affairs and is a former member of the Ministry's Fatwa Board. He has taught fiqh and Islamic studies in Kuwait and Saudi Arabia. Dr Ghudda obtained BA degrees in Islamic Shariah and in Law from Damascus University. He went on to earn his MA degree in Shariah and hadith and his PhD in Shariah and comparative fiqh from Al-Azhar University in Cairo.

Sheikh Mahomed Shoaib Omar –
Sheikh Omar serves as a member of the Shariah Supervisory Board of Al Baraka Bank. He completed his LLB at the University of KwaZulu-Natal in 1979 and studied Arabic and Islamic Law under Mufti Taqi Usmani in 1982. He was also a student of Qadhi Mujahidul Islam, the founder of the Islamic Fiqh Academy of India. He was granted the right of appearance in the High and Constitutional Courts of South Africa in 1995. He currently practices as an attorney and has written a number of books and numerous articles on Islamic law and commerce.

Mufti Shafique Ahmed Jakhura –
Mufti Jakhura serves in the Fatwa Department preparing and issuing Islamic juristic rulings at the Darul Ihsan Research Centre in Durban. He has established and heads the Centre for Islamic Economics and Finance SA – a non-profit organisation dedicated to increasing awareness and providing education in the fields of Islamic economics and finance.

In 2002 he completed, with distinction, the Aalimiyah Course at Madrasah Taleemuddeen, in Durban and in 2005 completed a three-year specialisation course in Islamic Jurisprudence (Fiqh and Fatwa) from Jamia Darul Uloom Karachi, under the guidance of Mufti Taqi Usmani, which culminated in the submission of a thesis on the topic of Shirkat and Mudharabat. He also has an Advanced Diploma in Islamic banking and finance from the Centre for Islamic Economics, based in Karachi.

Shariah supervision of the Old Mutual Al Baraka Shariah funds

The partnered Old Mutual Al Baraka Shariah funds are managed in strict accordance with Shariah. The funds afford opportunities for Muslim investors seeking socially and morally responsible investments on the Johannesburg Securities Exchange.

The appointment of an independent Shariah Supervisory Board indicates the absolute commitment to both Shariah and Islamic economic principles. The Shariah Supervisory Board comprises Mufti Justice (retired) Muhammad Taqi Usmani (Chairman), Dr Muhammad Imran Ashraf Usmani, Sheikh Mahomed Shoaib Omar and Mufti Zubair Bayat, and meets at least once annually.

The board has also appointed a local Shariah sub-committee, comprising Sheikh Mahomed Shoaib Omar and Mufti Zubair Bayat, who examine the Shariah compliance status of prospective companies and the core activities and financials of every company in the fund universe so as to ensure that each and every company complies with Shariah principles as set by AAOIFI. All investments made by the fund ensure ongoing compliance with Shariah board directives.

The local sub-committee meets at least four times a year in order to ensure the execution of its mandate and to report to the Shariah Supervisory Board annually.

Directors' Responsibility Statement and Secretary's Declaration

Directors' responsibility statement

The company's directors are responsible for the preparation and fair presentation of the group annual financial statements and separate parent annual financial statements, comprising the directors' report, 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 flows for the year then ended, a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these 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.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the group and company's ability to continue as a going concern and there is no reason to believe the businesses will not be going concerns in the year ahead. The auditor is responsible for reporting on whether the group annual financial statements and separate parent annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of group annual financial statements and annual financial statements

The group annual financial statements and annual financial statements were approved by the board of directors on 17 March 2011 and signed on their behalf by:

....

Adnan Ahmed Yousif

Chairman

....

Shabir Chohan

Chief Executive

Secretary's declaration

The secretary certifies that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act, No. 61 of 1973 as amended, and that all such returns are true, correct and up-to-date.

....

Colin Breeds

Company Secretary

Durban

17 March 2011

Albaraka Bank Limited

Registration number 1989/003295/06

Annual Financial Statements

for the year ended 31 December 2010

Contents

Your Partner Bank

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 **R**	2009 R
Shares	**100**	100
Amount owing	**18 192 091**	7 635 683
	18 192 191	7 635 783

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		**233 367**	228 853	**229 939**	228 280
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	2009	**2010**	2009
		R'000	R'000	**R'000**	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 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
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	2009	**2010**	2009
		R'000	R'000	**R'000**	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.

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 R'000	2009 R'000
Regulatory capital		
Tier 1		
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)**	-
Total Tier 1 capital	**207 226**	217 624
Tier 2		
Portfolio impairment (net of deferred tax)	**5 955**	5 328
Total eligible capital	**213 181**	222 952
Capital adequacy ratios (Tier 1 %)	**9,9%**	12,5%
Capital adequacy ratios (Total %)	**10,1%**	12,8%

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	2009	**2010**	2009
	R'000	R'000	**R'000**	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
	204 943	169 313	**2 101 977**	1 736 561

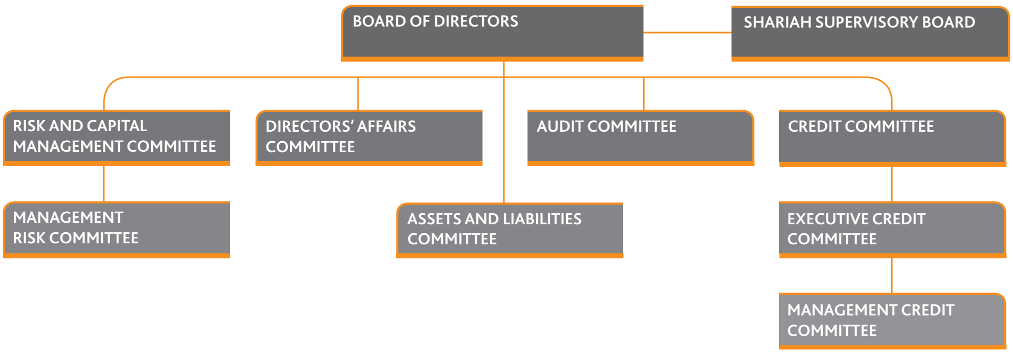
2. Risk management and assessment

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)

2. Risk management and assessment (continued)

2.1 Credit risk (continued)

Credit exposures

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

	2010 R'000	2009 R'000
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

	2010 R'000	2009 R'000
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		**2 834 365**	2 286 125
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		**2 834 365**	2 286 125

Notes to the Financial Statements

for the year ended 31 December 2010
(continued)

2. Risk management and assessment (continued)

2.1 Credit risk (continued)

	Group and Company							
	Advances to customers		Advances and balances with banks		Other exposures		Total	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000	**2010 R'000**	2009 R'000	**2010 R'000**	2009 R'000
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	**34 036**	28 191	**-**	-	**-**	-	**34 036**	28 191
Specific impairment	**(6 434)**	(9 692)	**-**	-	**-**	-	**(6 434)**	(9 692)
Carrying amount	**27 602**	18 499	**-**	-	**-**	-	**27 602**	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	**493 189**	432 540	**-**	-	**-**	-	**493 189**	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	**1 407 442**	1 132 036	**752 086**	670 833	**147 612**	22 525	**2 307 140**	1 825 394
Total carrying amount before portfolio impairment	**1 928 233**	1 583 075	**752 086**	670 833	**147 612**	22 525	**2 827 931**	2 276 433
Portfolio impairment - Standard category	**(8 271)**	(7 400)	**-**	-	**-**	-	**(8 271)**	(7 400)
Net carrying amount	**1 919 962**	1 575 675	**752 086**	670 833	**147 612**	22 525	**2 819 660**	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).

	2010 R'000	2009 R'000
Estimated fair value of collateral and other security enhancements	**1 906 489**	1 262 658

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

	2010 R'000	2009 R'000
Past due and individually impaired		
- Individuals	**12 376**	12 135
- Other customers	**21 660**	16 056
	34 036	28 191
Past due but not impaired		
- Individuals	**118 696**	108 348
- Other customers	**374 493**	324 192
	493 189	432 540

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

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

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 R'000	2009 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
		102 138	81 343

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

for the year ended 31 December 2010
(continued)

	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
	135 247	126 903	**123 164**	115 962
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)
	(36 365)	(31 639)	**(41 298)**	(32 344)
	98 882	95 264	**81 866**	83 618
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	2009	**2010**	2009
	R'000	R'000	**R'000**	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%).			**58 511**	62 739
	76 066	74 385	**58 511**	62 739
Carrying value at beginning of year	**74 385**	45 693	**62 739**	-
Additions	**1 681**	28 692	**-**	63 444
Depreciation			**(4 228)**	(705)
	76 066	74 385	**58 511**	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.

	Group 2010	Group 2009	Company 2010	Company 2009
Carrying value at beginning of year	**1 654**	1 101	**1 654**	1 101
Additions	**487**	553	**487**	553
Transfer to equipment and computers	**(2 141)**	-	**(2 141)**	-
	-	1 654	**-**	1 654

Notes to the Financial Statements

for the year ended 31 December 2010
(continued)

3. Property and equipment (continued)

Movement in property and equipment

Group

	Land and buildings R'000	Vehicles R'000	Equipment and computers R'000	Leasehold improvements R'000	Tank containers R'000	Total R'000
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	**76 066**	**1 689**	**14 081**	**3 875**	**3 171**	**98 882**
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	74 385	1 443	13 328	2 630	3 478	95 264

	Land and buildings R'000	Vehicles R'000	Equipment and computers R'000	Leasehold improvements R'000	Tank containers R'000	Total R'000
Company						
2010						
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	**58 511**	**1 689**	**14 081**	**4 414**	**3 171**	**81 866**
2009						
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	62 739	1 443	13 328	2 630	3 478	83 618

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

4. Investment properties

Balance at beginning of year	**-**	-		
Additions	**10 339**	-		
Balance at end of year	**10 339**	-		

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	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000
5. Intangible assets				
Cost				
Computer software	**1 250**	914	**1 250**	914
Capitalised project costs	**25 037**	20 028	**25 037**	20 028
	26 287	20 942	**26 287**	20 942
Accumulated amortisation and impairment				
Computer software	**(619)**	(277)	**(619)**	(277)
Capitalised project costs	**(2 955)**	(826)	**(2 955)**	(826)
	(3 574)	(1 103)	**(3 574)**	(1 103)
	22 713	19 839	**22 713**	19 839

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)**	-
	-	14 558	**-**	14 558

	Computer software R'000	Capitalised project costs R'000	Total R'000
Movement in intangible assets			
Group and company			
2010			
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	**631**	**22 082**	**22 713**
2009			
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	637	19 202	19 839

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).

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Shares at cost			*	*
Due by subsidiary				
- Loan account			**84 247**	71 440
- Finance lease liability (note 27.2)			**(66 055)**	(63 804)
			18 192	7 636
			18 192	7 636

* 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	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000

7. Deferred tax asset

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	**5 831**	7 193	**9 578**	7 388

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)
	5 831	7 193	**9 578**	7 388

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)
	4 639	3 935	**4 639**	3 935
Unlisted investments				
Kiliminjaro Investment Limited, at cost	**2 600**	2 600	**2 600**	2 600
	7 239	6 535	**7 239**	6 535

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.

9. Advances and other receivables

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
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
Net advances	**2 391 612**	2 055 703	**2 391 612**	2 055 703
Other receivables	**2 944**	1 384	**2 824**	1 381
South African Revenue Service - income tax	**3 082**	1 639	**3 082**	1 392
- value added tax	**-**	178	**-**	-
	2 397 638	2 058 904	**2 397 518**	2 058 476

Included under property are Musharaka advances amounting to R1 221,8 million (2009: R970,9 million).

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
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
From 1 month to 3 months	**195 621**	72 715	**195 621**	72 715
From 3 months to 1 year	**122 096**	354 713	**122 096**	354 713
	471 650	480 028	**471 650**	480 028

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

9. Advances and other receivables (continued)

9.3 Analysis of impairment for doubtful advances				
9.3.1 Specific impairments				
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	**6 434**	9 692	**6 434**	9 692
9.3.2 Portfolio impairment				
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	**8 271**	7 400	**8 271**	7 400
	14 705	17 092	**14 705**	17 092
9.3.3 Impairment for credit losses				
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)
	506	1 123	**506**	1 123

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
	282 382	192 901	**282 382**	192 901
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
	42 494	29 880	**42 494**	29 880

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	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000

11. Share capital

11.1 Authorised share capital				
30 000 000 (2009: 30 000 000) ordinary shares of R10 each	**300 000**	300 000	**300 000**	300 000
11.2 Issued and fully paid share capital				
15 000 000 (2009: 15 000 000) ordinary shares of R10 each	**150 000**	150 000	**150 000**	150 000

12. Reserves

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

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	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000

13. Welfare and charitable funds

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

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	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000

15. Deposits from customers

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**	-
	2 570 614	2 129 660	**2 570 614**	2 129 660
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**	-
	2 570 614	2 129 660	**2 570 614**	2 129 660

16. Net non-Islamic income

Net interest income	**8 531**	10 597	**8 531**	10 597
Other non-Shariah compliant income	**63**	-	**63**	-
	8 594	10 597	**8 594**	10 597
Amount transferred to welfare and charitable funds	**(8 594)**	(10 597)	**(8 594)**	(10 597)
	-	-	**-**	-

Notes to the Financial Statements

for the year ended 31 December 2010
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	Group		Company	
	2010	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000

17. Fee and commission income

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
	12 315	7 777	**12 515**	7 977

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
	1 341	1 944	**7 066**	1 663

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
	1 995	1 700	**1 951**	1 689

	Group		Company	
	2010	2009	**2010**	2009
	R'000	R'000	**R'000**	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	Bonus	Other benefits	Total
		R'000	**R'000**	**R'000**	**R'000**
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**
		3 704	**-**	**236**	**3 940**
2009					
SAE Chohan	- Chief executive	1 317	400	67	1 784
MG McLean	- Deputy chief executive	1 061	200	31	1 292
MJD Courtiade	- Financial director	920	200	37	1 157
		3 298	800	135	4 233

The executive directors do not have any service contracts.
Other benefits are short term in nature.

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for the year ended 31 December 2010
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	Group		Company	
	2010	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000

19. Operating expenditure (continued)

Directors' emoluments (continued)

19.2 Non-executive directors' fees

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
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
			1 046	1 211

20. Taxation

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

	Group 2010	Group 2009	Company 2010	Company 2009
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
	28,0	28,0	**28,0**	28,0

	Group		Company	
	2010	2009	**2010**	2009
	R'000	R'000	**R'000**	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)	**75,1**	125,0		
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)	**70,2**	121,4		
Headline earnings per share are derived from:				
Profit for the year	**11 264**	18 747		
Surplus arising on disposal of property and equipment	**(56)**	(55)		
Impairment of financial instruments	**(677)**	(489)		
	10 531	18 203		

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.	**6 750**	6 750	**6 750**	6 750

Notes to the Financial Statements

for the year ended 31 December 2010
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	Group		Company	
	2010	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000
23. Statement of cash flows				
23.1 Cash generated from operations				
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)
	21 542	22 260	**19 407**	21 347
23.2 Changes in working capital				
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)
	106 326	50 909	**107 783**	47 623
23.3 Taxation paid				
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)
	(7 386)	(7 136)	**(7 633)**	(7 923)
23.4 Dividends paid				
Amount outstanding at beginning of year	**-**	-	**-**	-
Dividends declared and paid	**(6 750)**	(6 750)	**(6 750)**	(6 750)
Amount outstanding at end of year	**-**	-	**-**	-
	(6 750)	(6 750)	**(6 750)**	(6 750)
23.5 Purchase of property and equipment				
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)
	(8 619)	(41 028)	**(7 477)**	(75 780)

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

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
	147 612	22 525	**147 612**	22 525

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
	319	1 793	**319**	1 793

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

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	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
	2 834 365	2 286 125	**2 834 365**	2 286 125
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
	217	365	**217**	365

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:

		Term to maturity				
	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						
2010						
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**
	2 687 259	**465 873**	**447 049**	**436 109**	**785 779**	**552 449**
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**
	2 736 457	**947 793**	**695 931**	**1 044 315**	**22 206**	**26 212**
Net liquidity gap	**(49 198)**	**(481 920)**	**(248 882)**	**(608 206)**	**763 573**	**526 237**
2009						
Assets						
Advances and receivables	2 058 904	160 704	199 413	630 058	764 167	304 562
Investment securities	6 535	-	-	-	-	6 535
Cash and cash equivalents	192 901	192 901	-	-	-	-
	2 258 340	353 605	199 413	630 058	764 167	311 097
Liabilities						
Deposits from customers	2 129 660	840 866	503 061	778 572	7 161	-
Accounts payable	14 890	13 476	1 010	217	187	-
Letters of credit, guarantees and confirmations	22 525	3 327	10 530	8 668	-	
	2 167 075	857 669	514 601	787 457	7 348	-
Net liquidity gap	91 265	(504 064)	(315 188)	(157 399)	756 819	311 097

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	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
	7 239	6 535	**7 239**	6 535

26.6 Intrinsic rate risk

	Intrinsic rate %	Maturity	2010 R'000	2009 R'000
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			**7 012**	6 493
Non-current portion				
Obligations under finance leases (note 27.2)	14,3%	2024	**59 043**	57 311
Total non-current portion			**59 043**	57 311

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.

	Non-financial instruments	Advances and receivables	Available-for-sale	Held to maturity	Other amortised cost	Carrying amount	Fair Value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Group							
2010							
Assets							
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**
	6 026	**2 576 712**	**4 639**	**99 882**	**-**	**2 687 259**	**2 687 259**
Liabilities							
Deposits from customers	**-**	**-**	**-**	**-**	**2 570 614**	**2 570 614**	**2 570 614**
Accounts payable	**-**	**-**	**-**	**-**	**18 231**	**18 231**	**18 231**
	-	**-**	**-**	**-**	**2 588 845**	**2 588 845**	**2 588 845**
Group							
2009							
Assets							
Advances and other receivables	3 201	2 055 703	-	-	-	2 058 904	2 058 904
Investment securities	-	-	3 935	2 600	-	6 535	6 535
Cash and cash equivalents	-	192 901	-	-	-	192 901	192 901
	3 201	2 248 604	3 935	2 600	-	2 258 340	2 258 340
Liabilities							
Deposits from customers	-	-	-	-	2 129 660	2 129 660	2 129 660
Accounts payable	-	-	-	-	14 890	14 890	14 890
	-	-	-	-	2 144 550	2 144 550	2 144 550

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:

26. Financial instruments (continued)

26.8 Fair value hierarchy (continued)

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group				
2010				
Financial assets				
Financial investments available-for-sale				
- Unit trust investments	**4 639**	**-**	**-**	**4 639**
	4 639	**-**	**-**	**4 639**
Financial liabilities	**-**	**-**	**-**	**-**
2009				
Financial assets				
Financial investments available-for-sale				
- Unit trust investments	3 935	-	-	3 935
	3 935	-	-	3 935
Financial liabilities	-	-	-	-

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
	2 210	1 807	**3 230**	1 807

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	**177 597**	**66 055**	184 527	63 804
Less amounts representing finance charges	**(111 542)**		(120 723)	
Present value of minimum lease payments - (note 6)	**66 055**	**66 055**	63 804	63 804

Albaraka Bank Limited has entered into a finance lease with its wholly-owned subsidiary, Albaraka Properties (Proprietary) Limited for the use of its property as the bank's corporate head office. This lease is for an initial period of 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
(continued)

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:

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

	Balance Outstanding	
	2010	2009
	R'000	R'000
Instalment sale		
Balance outstanding at beginning of year	**2 097**	2 838
Advances granted during the year	**-**	318
Repayments during the year	**(1 195)**	(1 433)
Profit earned	**232**	374
	1 134	2 097
Profit mark-up range for the year	**10,0% - 15,0%**	10,0% - 15,0%
Trade finance		
Balance outstanding at beginning of year	**2 172**	3 218
Advances granted during the year	**13 216**	6 707
Repayments during the year	**(11 932)**	(8 086)
Profit earned	**344**	333
	3 800	2 172
Profit mark-up range for the year	**9,0% - 12,0%**	9,5% - 12,0%
Iqraa Trust		
Balance (due to)/owing by the trust at beginning of year	**(1)**	172
Funds received on behalf of the trust	**19**	-
Funds paid over to the trust	**(19)**	(173)
Balance due to the trust at end of year	**(1)**	(1)

During the year, the bank donated an amount of R5 817 777 (2009: R11 974 068) to the trust.

At 31 December 2010 funds deposited by the trust with the bank amounted to R26 708 947 (2009: R32 096 111).

Total exposure to related parties	**9 674**	10 443

Staff advances are conducted at subsidised profit rates. The amount subject to the subsidised profit rate is dependent on the staff member's position within the entity.

The total staff advances outstanding at the end of the period amounted to	**25 302**	21 283

Notes to the Financial Statements

for the year ended 31 December 2010
(continued)

30. Events after the reporting period

On 31 January 2011, the bank offered 7,5 million new ordinary shares (Rights offer shares) to existing shareholders in terms of a non-renounceable rights issue. The purpose of the rights issue was to increase the bank's qualifying capital, in order to comply with capital adequacy requirements under Basel II, in terms of the Banks Act, No. 94 of 1990 and Regulations relating thereto. The offer was underwritten by the holding company, Al Baraka Banking Group B.S.C.

The Rights offer shares were offered to shareholders in the ratio of one new ordinary share for every two ordinary shares held as at 25 January 2011. The Rights offer shares were offered at a subscription price of R14,00 each, comprising a nominal price of R10,00 and a premium of R4,00. The total value of shares offered through the rights issue was R105,0 million.

31. Standards and interpretations not yet effective

At the date of authorisation of the annual financial statements for the year ended 31 December 2010, the following accounting standards and interpretations were in issue but not yet effective:

IFRIC 17 Distribution of Non-cash Assets to Owners

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

IFRIC 18 Transfer of Assets from Customers

This interpretation is required for such transactions occurring on or after 1 July 2010 but is not expected to be relevant to the activities of the group.

IAS 27 Consolidated and Separate Financial Statements (Revised)

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

IFRS 3 Business Combinations (Revised)

This revised standard is required for years commencing on or after 1 July 2010 but is not expected to have a significant impact on the current activities of the group.

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

These amendments are required for years commencing on or after 1 July 2010 but are not expected to have a material impact on the activities of the group.

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

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

Improvements to IFRS (April 2009)

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

IAS 32 Amendment for Classification of Rights Issues

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

IFRS 1 Amendments for Additional Exemptions for First-time Adopters

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

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

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

IFRIC 14 Amendment for Pre-payment of a Minimum Funding Requirement

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

IAS 24 Related Party Disclosure (Revised)

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

IFRS 9 Financial Instruments

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

32. Adoption of new standards

The following amendments to standards and new interpretations were adopted during the year, as they became effective for years commencing on or after 1 January 2009.

These amended standards impacted the disclosure in the financial statements:

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

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

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

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

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

AAOIFI Statement of Financial Position

as at 31 December 2010

	Group		Company	
	2010	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000
Assets				
Cash and cash equivalents	**282 382**	192 901	**282 382**	192 901
Sales receivables	**1 175 851**	1 080 798	**1 175 851**	1 080 798
Musharaka financing	**1 215 134**	972 524	**1 215 134**	972 524
Investment securities	**7 239**	6 535	**7 239**	6 535
Investment in subsidiary company			**18 192**	7 636
Total investments	**2 680 606**	2 252 758	**2 698 798**	2 260 394
Other assets	**12 484**	12 775	**16 111**	12 542
Property and equipment	**98 882**	95 264	**81 866**	83 618
Investment properties	**10 339**	-		
Intangible assets	**22 713**	19 839	**22 713**	19 839
Total assets	**2 825 024**	2 380 636	**2 819 488**	2 376 393
Liabilities, unrestricted investment accounts and owners' equity				
Liabilities				
Customer current accounts and other	**91 241**	9 249	**91 241**	9 249
Payables	**18 231**	14 890	**16 123**	11 220
Other liabilities	**2 812**	7 233	**2 812**	7 233
Total liabilities	**112 284**	31 372	**110 176**	27 702
Equity of unrestricted investment account holders	**2 467 041**	2 114 731	**2 467 041**	2 114 731
Total liabilities and unrestricted investment accounts	**2 579 325**	2 146 103	**2 577 217**	2 142 433
Share capital	**150 000**	150 000	**150 000**	150 000
Reserves	**12 332**	19 541	**12 332**	19 541
Retained income	**83 367**	64 992	**79 939**	64 419
Owners' equity	**245 699**	234 533	**242 271**	233 960
Total liabilities, unrestricted investment accounts and owners' equity	**2 825 024**	2 380 636	**2 819 488**	2 376 393

AAOIFI Statement of Comprehensive Income

for the year ended 31 December 2010

	Group		Company	
	2010	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000
Income from sales receivables	**105 451**	102 933	**105 451**	102 933
Income from Musharaka financing	**111 987**	110 908	**111 987**	110 908
Return on unrestricted investment accounts before the bank's share as mudarib	**217 438**	213 841	**217 438**	213 841
Less: bank's share as mudarib	**(94 436)**	(92 596)	**(94 436)**	(92 596)
Return on unrestricted accounts	**123 002**	121 245	**123 002**	121 245
Bank's share in income from investment (as a mudarib and as a fund owner)	**94 436**	92 596	**94 436**	92 596
Bank's income from its own investments	**207**	248	**6 207**	248
Revenue from banking services	**8 358**	5 146	**8 358**	5 146
Other revenue	**5 091**	4 575	**5 016**	4 494
Total bank revenue	**108 092**	102 565	**114 017**	102 484
Administrative and general expenditure	**(83 942)**	(79 589)	**(92 046)**	(79 753)
Depreciation of property and equipment	**(4 931)**	(4 046)	**(9 159)**	(4 751)
Amortisation of intangible assets	**(2 471)**	(664)	**(2 471)**	(664)
Profit before taxation	**16 748**	18 266	**10 341**	17 316
Taxation	**(5 484)**	481	**(1 932)**	858
Profit for the period	**11 264**	18 747	**8 409**	18 174

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