Integrated Annual Report 2013

Your Partner Bank

Vision, Mission, Values, Code of Business Conduct, Strategic Objectives, Business and Financial Highlights

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 can 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 the 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 Financial Reporting Standards and to the 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

- To increase returns to shareholders;
- The promotion of customer service excellence;
- The development of innovative products; and
- The utilisation of enhanced technology.

Business highlights

- Launch of a project to migrate our magstripe debit cards to chip-enabled cards, thus conforming to global Europay, MasterCard and Visa (EMV) standards;
- Launch of a Business Process Re-engineering (BPR) project to improve the bank's overall operational efficiency; and
- Drive to constantly improve customer service levels, through the development of innovative Shariah-compliant banking products and financial services.

Financial highlights

- Profit after taxation increased by 14,6% to R29,0 million;
- Total assets exceeded R4,4 billion;
- Total deposits of R3,9 billion;
- Gross advances to customers increased by R359,3 million; and
- Shareholders' equity of R381,0 million.

Al Baraka Bank ... Living the Partnership Ideal

Our success and that of our customers is closely entwined.

We are deeply committed, as 'your partner bank' to forming long-term relationships with our clients; partnerships in which both parties together achieve common goals, so realising infinitely more than would otherwise be possible.

We are intent on taking the time to become acquainted with our clients, to understand their personal needs and to offer tailored banking solutions to address those needs.

We focus on capitalising on arising opportunities. Our reward is in contributing to the overall development of the people, businesses and communities we exist to serve.

Contents

Company Profile

Al Baraka Banking Group – Bahrain

Al Baraka Bank in South Africa is a subsidiary of the Bahrain-based and internationally-acclaimed Al Baraka Banking Group, one of the world's leading Islamic banking groups.

Al Baraka Banking Group's global footprint reflects subsidiary banking unit and representative office touch-points in no fewer than 15 countries, which provide Shariah-compliant retail, corporate, investment and treasury banking services through some 479 branches and served by almost 9 700 members of staff.

The group, which was established to meet the need for Islamic banking services across the world, is listed on the Bahrain and Dubai financial exchanges. It is striving to become a fully integrated financial institution; one which delivers a complete bouquet of financial products designed to meet the evolving needs of clients.

The group is positioned to take advantage of its current growth trajectory, evidenced through its impressive 2013 financial results. The group's 2013 net income amounted to US$258,0 million, while its total assets increased to US$21,0 billion.

International subsidiaries within Al Baraka Banking Group include: Banque Al Baraka D'Algerie S.P.A. in Algeria, Al Baraka Islamic Bank B.S.C. in Bahrain, Al Baraka Bank Egypt in Egypt, Itqan Capital in Saudi Arabia, Jordan Islamic Bank in Jordan, Al Baraka Bank Lebanon S.A.L. in Lebanon, Al Baraka Bank (Pakistan) Limited in Pakistan, Albaraka Bank Limited in South Africa, Al Baraka Bank Sudan in Sudan, Al Baraka Bank Syria s.a. 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, with a branch in Iraq, which is responsible to Al Baraka Türk Participation Bank.

Al Baraka Bank – South Africa

Al Baraka Bank, established in South Africa in 1989, provides an essential alternative to conventional banking models in this country; one which is becoming increasingly attractive to a growing number of both Muslim and non-Muslim clients.

The bank follows a faith-based system of financial management and draws its guiding principles from Shariah, which promotes profit-sharing, while prohibiting the payment or the receiving of interest in any transaction. Products and services are all fully Shariah-compliant and the bank is wholly committed to the partnership ideal, working to forge long-term relationships with clients. The bank's personal approach enables us to develop close and meaningful partnerships with our clients to the mutual benefit of both client and bank.

With our head office in Durban, Al Baraka Bank's national footprint has increased to include seven retail branches, three corporate banking offices and a business office, providing a full range of products, meeting requirements to make the transition to a fully-fledged and competitive commercial bank.

The bank's primary shareholders, as at 31 December 2013, included the Bahrain-based Al Baraka Banking Group B.S.C. (62,15%), DCD Holdings (SA) (Pty) Ltd. (8,61%), DCD London and Mutual plc (4,00%), Johannesburg-based Timewest Investments (Pty) Ltd. (7,67%) and Sedfin (Pty) Ltd. (3,33%). The balance of the bank's shareholding comprised foreign and local shareholders.

Al Baraka Bank's board of directors consists of both local and international business people, all of whom display exceptional individual business skills and collective expertise and experience in Islamic banking.

In its quest to continuing to adhere to Shariah in its day-to-day business and ensuring that its products and services comply with Islamic business principles, 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.

All financial products are reviewed and audited on a regular basis to ensure the maintenance of complete Shariah compliance.

Al Baraka Banking Group has steadily increased its shareholding in its South African subsidiary, with the local bank emerging to become an integral part of the international group.

Using this advantageous international linkage, together with its own continued growth path, Al Baraka Bank has gained an impressive reputation as a highly professional, effective and efficient financial services provider at the cutting-edge of Islamic banking in this country.

This financial institution also makes a significant contribution towards assisting with socio-economic development in South Africa by way of a comprehensive corporate social investment programme, a programme which targets five key areas, inclusive of education, humanitarianism, health, security and poverty alleviation.

Ten-year Review

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Statement of Financial Position (Rm)										
Share capital	**225**	**225**	225	150	150	150	150	150	89	53
Shareholders' interest	**381**	**362**	347	233	228	217	202	187	118	75
Deposits from customers	**3 941**	**3 322**	2 881	2 571	2 130	1 624	1 449	1 254	1 004	885
Advances and other receivables	**3 753**	**3 269**	2 826	2 395	2 057	1 604	1 478	1 300	1 009	836
Total assets	**4 411**	**3 716**	3 246	2 825	2 381	1 871	1 686	1 470	1 179	1 012
Statement of Comprehensive Income (Rm)										
Profit before taxation	**40**	**34**	26	17	18	31	27	15	10	8
Total comprehensive income for the year	**29**	**25**	16	11	18	21	18	10	7	5
Share Statistics (Cents)										
Basic and diluted earnings per share	**129**	**112**	77	74	125	145	121	102	128	129
Headline earnings per share	**129**	**114**	76	69	121	144	121	101	134	102
Dividend per share	**45**	**45**	45	45	45	35	25	20	-	-
Net asset value per share	**1 692**	**1 608**	1 541	1 551	1 522	1 446	1 344	1 249	1 330	1 415
Ratios (%)										
Return on average shareholders' interest	**7,8**	**7,1**	4,6	4,8	8,2	10,4	9,4	7,0	8,9	8,9
Return on average total assets	**0,7**	**0,7**	0,5	0,4	0,9	1,2	1,2	0,7	0,7	0,5
Shareholders' interest to total assets	**8,6**	**9,7**	10,7	8,2	9,6	11,6	12,0	12,7	10,0	7,4

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.

Directorate and Administration

Board of directors
During the 2013 financial year, Al Baraka Bank's board of directors comprised the following members:

Non-executive
AA Yousif (58)
Bahraini
- MBA
- Joined the board in 2005
- Non-executive chairman
- Currently president and chief executive of Al Baraka Banking Group

MG McLean (66)
- AEP - UNISA
- Joined the board in 2001
- Non-executive director
- Member of the board credit committee

Independent non-executive
SA Randeree (52)
British
- BA (Hons) MBA
- Joined the board in 2003
- Vice chairman of the board and lead independent director
- Chairman of the directors' affairs committee and the board credit committee
- Member of the remuneration committee

F Kassim (55)
Sri Lankan
- OPM - Harvard Business School
- Joined the board in 2006
- Independent non-executive director
- Member of the directors' affairs committee

A Lambat (55)
- CA (SA)
- Joined the board in 2006
- Independent non-executive director
- Chairman of the risk and capital management committee
- Member of the audit committee

Adv. AB Mahomed SC (68)
- BA LLB
- Joined the board in 1989
- Independent non-executive director
- Member of the audit committee, risk and capital management committee and remuneration committee

MS Paruk (59)
- CA (SA)
- Joined the board in 2004
- Independent non-executive director
- Chairman of the audit committee
- Member of the risk and capital management committee and board credit committee

YM Paruk (55)
- Joined the board in 2003
- Independent non-executive director
- Chairman of the remuneration committee
- Member of the risk and capital management committee

M Youssef Baker (59)
Egyptian
- B.Sc Economics and Political Science
- Joined the board in 1992
- Independent non-executive director
- Chairman of the social and ethics committee
- Member of the audit committee and the directors' affairs committee

Executive
SAE Chohan (48)
- CA (SA)
- Joined the board in 2004
- Chief executive
- Member of the board credit committee and the social and ethics committee

MJD Courtiade (60)
French
- CA (SA)
- Joined the board in 2004
- Chief operating officer
- Member of the risk and capital management committee

Company secretary
CT Breeds BA LLB

Shariah Supervisory Board
Dr. AS Abu Ghudda, Chairman (Syrian)
Mufti SA Jakhura
MS Omar B.Com LLB

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
Albaraka Bank Limited is an Authorised Dealer in foreign exchange

Business and postal address
Head Office:
2 Kingsmead Boulevard, Kingsmead Office Park
Stalwart Simelane Street, Durban, 4001
PO Box 4395, Durban, 4000

Retail branches:
General Manager: D Desai

Kingsmead (Durban)
Regional Manager: F Randeree
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)
Branch Manager: N Valli
Shop 20, Signet Terrace, 82 Gemsbok Street
Extension 1 Lenasia, 1827
PO Box 2020, Lenasia, 1820

Laudium (Pretoria)
Sales Manager: A Dhooda
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

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

Professional office:
Killarney (Johannesburg)
Manager: AR Gangat
First floor, Office 105, Office Towers,
Killarney Mall, Killarney, 2193

Corporate offices:
General Manager: I Yuseph

Durban
Manager: M Ameen
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
First floor, Office 105, Office Towers,
Killarney Mall, Killarney, 2193
PO Box 42897, Fordsburg, 2033

Chairman and Chief Executive's Statement

Economic overview

The performance of the South African economy over the past year turned out to be somewhat weaker than had been hoped for a year ago.

Global economic growth, especially in the first half of 2013, turned out to be softer than previously anticipated. However, South Africa's economic performance deteriorated in its own right as well. Business confidence declined as a result of heightened industrial action and a growing disillusionment with the government's ability to press through reforms which would overcome the structural weaknesses impeding the attainment of higher sustainable growth.

Currency depreciation and associated increased inflationary pressures created downward pressure on disposable income causing consumption expenditure to come under pressure. Lacklustre fixed investment associated with poor business confidence and a lack of implementation capacity in government, exacerbated economic weakness.

Fortunately, 2014 should show some improvement. Global economic growth appears to be picking up momentum, finally responding to the continuation of very loose monetary policy in the US and elsewhere.

Together with a much more competitive environment for South Africa, following the 20%-odd real depreciation of the Rand in the past year, exporters should benefit. Nonetheless, there is a risk that a gradual tightening up of US monetary policy could dry up capital inflows into South Africa, causing the Rand to depreciate further, with damaging inflationary consequences that could result in a rise in interest rates sooner than expected.

Secondly, a repeat of the escalation of industrial action experienced in 2013 would scupper the potential boost to exports. Hope also exists that once the general election is out of the way, the government will find it easier to implement the National Development Plan, which is directed at addressing the impediments constraining improved longer term growth.

Shariah banking

As South Africa's only fully-fledged Islamic bank, Al Baraka Bank maintains strict adherence to Shariah in its business activity.

The bank continuously works to improve its controls and structures in an ongoing commitment to Shariah compliance. In addition, the bank takes guidance from the Shariah Supervisory Board, an independent body of specialist jurists in Islamic commercial jurisprudence.

All our efforts are supported by the bank's membership of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), acclaimed around the world for the standards it sets. It is to these strict standards we adhere in the execution of our business activities.

The bank's Shariah Certificate is displayed throughout our national network of offices and branches, substantiating our pledge to clients, prospective clients and other stakeholders that we remain intent on maintaining Shariah compliance as a truly Islamic bank.

Al Baraka Banking Group

Al Baraka Bank in South Africa is a subsidiary of Bahrain-based Al Baraka Banking Group, globally regarded as a leader in Islamic banking, and with representation in no fewer than 15 countries around the world. With a world-wide staff complement of some 9 700 people, the group's assets exceeded US$20,0 billion, while generated net income amounted to US$258,0 million in the 2013 financial year.

On the back of such impressive financial results and buoyed by a slowly improving world economy, Al Baraka Banking Group is continuing an impressive international business growth curve, mirrored in the results of its various subsidiaries. In addition, the group's new state-of-the-art head office, which is under construction, in Bahrain rises as the manifestation of its leading position in the global banking environment and its status as one of the world's top Islamic banking groups. Al Baraka Banking Group believes implicitly that banking should play a crucial role in society; a role in which - as bankers - all concerned must take responsibility for the stewardship of the resources placed in their care. The group, accordingly, relies on Shariah principles to guide it and its subsidiaries, as it participates in the successes of its customers and shares in developing the social fabric of families, businesses and society in general.

Such has been its overall business success in recent times, that Al Baraka Banking Group and five of its subsidiaries - including Al Baraka Bank in South Africa - were honoured with international banking awards during 2013. Al Baraka Banking Group received the 'Best Islamic Financial Institution in the Middle East/Africa Award' at the prestigious USA-based Global Finance magazine annual awards, involving international banks and financial institutions. The awards committee comprised economists and editors of Global Finance, together with international financial advisors and experts in the banking field. The group and winning subsidiaries were recognised for their prominent role in the Islamic banking sector, their ability to achieve consistent growth and the meeting of professional standards in terms of the quality of their products and services, together with their originality and innovation in services offered and customer service delivered. In addition, criteria included the winners' continued development and innovation in banking operations, as well as strategic relationships, geographic reach, profitability and the robustness of their financial position.

The awards were received by Mr Adnan Ahmed Yousif, president and chief executive of Al Baraka Banking Group - and chairman of Al Baraka Bank in South Africa - on behalf of the winning subsidiaries during a ceremony held in Washington, USA, in October 2013. The subsidiary banking units were described as having long histories in the countries in which they operate, being amongst the leading financial institutions in servicing their communities and being well-established in terms of their expertise in and knowledge of local markets.

South African Financial Performance

The 2013 financial year saw Al Baraka Bank surpass its previous best ever financial results, achieved during the 2012 reporting period, to register yet another highly successful year.

The review period saw our bank's total assets grow by 18,7% to close on R4,4 billion at financial year-end.

In addition, our gross advances grew by R359,3 million, or 13,1%, while the deposit book grew by 18,6%, or R619,1 million and the equity finance book grew by 23,1%, or R126,6 million.

Our net income before impairment for credit losses and after allowing for profits shared with and paid to depositors increased by 11,4% to R138,2 million. Improved fee income, commission income and other income enabled the bank to increase net income from operations by R22,4 million, or 15,4%, to R168,1 million.

Such pleasing financial results ensure that the bank remains firmly on a growth path, improving our ability to meet the growing needs of our diverse client-base.

In living the 'your partner bank' ideal, we strive constantly to develop close, personal and enduring associations with our clients and, through such relations, to engender business interactions between equals, ensuring the shared rewards and benefits of true partnership. In this regard, the bank was successful in converting previously introduced new products into viable financial tools for our clients, whilst wholly-realising its transformation goal in becoming a fully-fledged and competitive commercial bank during the review period. The uptake of our bank's foreign exchange offering during the review period proved exceptional. This may be directly attributed to our converting from

being an 'Authorised Dealer with Limited Authority' for retail foreign exchange, and able only to offer to purchase and sell foreign bank notes, to trading under a full foreign exchange licence, thus becoming an 'Authorised Dealer' and enabling us to significantly extend our range of international banking services .

It was always the bank's intention to become an 'Authorised Dealer' and our foreign exchange demand forecast was proven to be entirely correct. We have been hugely encouraged by the immediate and tremendously positive effect of the licence conversion and resultant demand for the greater international banking services such a licence affords.

Earnings from foreign exchange increased by 177,4% during the 2013 financial year, with transactions growing at a remarkable average of 22,8% a month, contributing R6,2 million to the bank's net income from operations.

Much of the uptake growth was as a consequence of the bank's competitive exchange rates and favourable services fees, coupled with efficient service and use of state-of-the-art technology, together with the fact that such international banking services created a host of new avenues previously unavailable to clients.

This also gave effect to the sizeable attraction of new clients to the bank.

Looking ahead, the bank has embarked on a programme to introduce additional foreign exchange services for the benefit of clients, inclusive of Shariah-compliant forward exchange contracts and the international use of the Al Baraka Debit Card. It is anticipated that this will further reinforce our position as a mature and highly competitive commercial bank, while enabling our corporate clients to transact seamlessly across the world.

During the 2013 financial year the bank saw the Shariah-compliant unit trust, known as the Old Mutual Al Baraka Funds since the founding of a partnership with Old Mutual in 2010, break the R1,5 billion mark. This fund has continued performing extremely well since 2011 when it was ranked as one of South Africa's best-performing general equity funds and one of the world's primary Shariah-compliant equity funds.

The review period also marked the initialisation of a project geared to the migrating of our magstripe debit cards to chip-enabled cards, thus conforming to global Europay, MasterCard and Visa (EMV) standards. These standards are being adopted by banks around the world, with many currently in the process of implementation.

By embracing the latest EMV technology, Al Baraka Bank regards the transition as an evolutionary phase in our electronic banking offering, first introduced in 2009. The new generation cards will provide account-holders with improved security, reducing still further the risk of cloning and instances of counterfeit card fraud. It will also enable us to include additional services and a variety of value-adds on cards for the benefit of card-holders into the future.

We envisage the implementation of a pilot project before rolling-out card replacement to clients during 2014. While clients face no additional costs, they will derive the security benefits offered by cards with embedded micro-chips, together with the advantages which lie in the fact that chip-enabled cards are able to store considerably more information than traditional magstripe cards.

A key focus for the bank during the 2013 financial year included containing overheads and a concerted effort to increase levels of the non-funding income. This was a significant group-wide challenge and one which required the implementation of initiatives designed to significantly increase the low non-funding income as a percentage of total income. During the course of the review period, we actively addressed the issue with regard to transactional fees, foreign exchange, electronic banking and our unit trust product.

Pleasingly, our necessary efforts resulted in a 26,7% increase in fee, commission and other operating income by financial year-end. Going forward and in line with the group initiative to significantly improve non-funding income, we will endeavour to design and implement interventions geared to maintaining and further improving such income levels.

Following the implementation of the Equation Banking System in late 2010, the need to boost income and, in particular, non-funding income was considered paramount in the 2013 financial year.

In this regard we focused on implementing additional products and services resulting in the roll-out of business banking facilities, cheque books and full foreign exchange services. Operational efficiency was regarded as another key driver to generating income and reviewing operational expenses and, in this regard, business process re-engineering (BPR) was considered to be an essential tool for improving the bank's overall operational efficiency.

Accordingly and following both executive committee and board approval, a BPR initiative was launched during June 2013.

Inclusiveness and the full participation of stakeholders is seen as a critical success factor in any BPR initiative and our core project team accordingly comprised representatives from all the bank's business units, while sub-project teams were driven by the business managers, assisted by team members from their respective business units.

Our project team identified a number of key drivers, inclusive of creating a paradigm shift in customer service excellence, addressing the cost to income ratio and establishing operational efficiency by way of such concepts as the single capture of data and the introduction of a paperless environment as a means of contributing to the overall reduction in the cost of operations, as well as the effective utilisation of precious and scarce staff resources which, it is envisaged, would also contribute to the overall job satisfaction of members of staff.

Chairman and Chief Executive's Statement (continued)

The success of our two-year BPR initiative, which adopts a phased delivery of project objectives approach, will be measured against these drivers.

Our continuous assessment and improvement approach to growing and enhancing our business, while constantly striving to better our offering and service to clients was rewarded in the 2013 financial year with the presentation of a major international award.

We were humbled to learn that Al Baraka Bank was named 'Best Islamic Financial Institution in South Africa' in the acclaimed Global Finance sixth annual World's Best Islamic Financial Institutions 2013 event in Washington, USA. The bestowing of such a prestigious international business accolade will spur us to redouble our efforts to implement our strategies to best effect. Our selection was made by Global Finance following extensive consultation with bankers, corporate finance executives and analysts from around the world. Factors considered included growth in assets, profitability, geographic reach, strategic relationships, new business development and innovation in products. Also factored in was reputation and customer satisfaction.

Our overriding goal remains to constantly improve our customer service levels, through the continued development and provision of innovative Shariah-compliant banking products and financial services, in line with the ever-evolving requirements of the people the bank exists to serve.

We have developed a most favourable growth trajectory in recent years and with such international recognition for our efforts, coupled with the benefits associated with being a subsidiary of Al Baraka Banking Group, we believe now that we are ideally positioned to take Islamic banking to a new business level in South Africa.

Dividend

Pleasingly, the bank has for the eighth consecutive year declared a dividend for the benefit of shareholders.

We are pleased to report that the bank's board approved a dividend of 45 cents per share for the 2013 financial year, which was payable in October 2013.

Broad-Based Black Economic Empowerment

Al Baraka Bank has long recognised the active role private sector businesses must play in promoting Broad-Based Black Economic Empowerment (B-BBEE) in South Africa.

The bank embraces the B-BBEE ideal and believes that by creating a supportive business culture, it will successfully assist in fostering diversity and promote transparency, while setting out to maintain a business which effectively and positively caters for the diversity of its own staff and the owners and staff of the service providers with which it interacts from time to time.

This adopted approach is in line with the bank's charter.

Information Technology

During the 2013 financial year we introduced a range of strategic progressions within the business environment in an ongoing effort to continuously broaden the scope of our corporate services.

This, together with our concerted efforts to exploit growth opportunities in existing areas of our own retail banking operations, saw the implementation of various new technologies, systems and process re-engineering efforts all designed to meet the increased demand for services.

Corporate Governance

Strict adherence to the principles of good corporate governance is a bank imperative. As a trusted financial institution, we take most seriously our responsibility for transparency of action and absolute compliance with laws and regulations. The bank's long-time observance of governance best practice is widely recognised within the South African financial sector and we continuously work to uphold our governance position through the realisation of our obligations in terms of the King Report on Corporate Governance (King III).

Corporate Social Investment

Private sector-inspired corporate social investment programmes play a pivotal role in meeting socio-economic upliftment needs in South Africa today.

The requirements necessary to normalise our social order are vast and big business has a considerable responsibility in terms of making a meaningful difference to the lives of the disadvantaged through active support for projects geared to repairing the social fabric of our communities.

For our part, we have - since 1994 - implemented a strategically-focused Corporate Social Investment programme, impacting on education, humanitarianism, health, security and poverty alleviation. In line with this, the bank donated funds in the amount of R9,0 million to needy organisations and causes across South Africa during the course of the 2013 financial year.
The bank is steadfast in its resolve to continue efforts to contribute to the socio-economic upliftment of our communities.

Future Prospects

During the review period, the bank commenced a project to raise additional capital to issue Sukuk (investment certificates), thus ensuring the growth of the bank's capital.

We are also set to complete a comprehensive investigation into the feasibility of developing and introducing a range of mobile banking products to complement our clients' current banking experience.

Appreciation

In the interests of strengthening the bank's leadership and giving effect to a more focused approach to our strategic initiatives, we were pleased to have received regulatory approval to introduce a new reporting structure, in line with a board recommendation, during the 2013 financial year.

We extend our appreciation to three senior members of staff who have served the bank exceptionally well in their former positions and to congratulate them on their new appointments within Al Baraka Bank. We look forward to their continued valuable contribution towards the smooth operation of the company in their revised roles.

Former Financial Director, Mr Jacques Courtiade, has been appointed as Chief Operating Officer (COO), responsible for corporate and retail branches, as well as the information technology, electronic banking and projects divisions.
Mr Abdullah Ameed, formerly General Manager: Finance, has been appointed as Acting Financial Director, with responsibility for the bank's Finance Department.

The former General Manager: International Banking, Mr Mohammed Kaka, has been appointed as Executive: International Banking.

These reporting changes came into effect in October 2013.

In conclusion, Al Baraka Bank has enjoyed a year of impressive financial results.

In view of such sound financial performance, we take this opportunity to thank most sincerely the members of our board, the executive team and all the members of our staff for their sterling effort in taking our business forward

during the past year.

We must, of course, also recognise and roundly acknowledge the indomitable role played by Al Baraka Banking Group. The guidance provided to and support shown for our subsidiary has, in no small measure, contributed towards the sustained growth of Al Baraka Bank in South Africa and our ability to deliver effectively against the growing needs of our clients.

Last, but not least, we offer our grateful thanks to our shareholders, together with our private, business and corporate clients.

Our ultimate goal is the achievement of business and private progress through effective partnership with you.

Our shared beliefs and aspirations bind us in a mutually-beneficial partnership; a partnership which stimulates value for the communities, businesses, families and individuals we serve.

Al Baraka Bank remains committed to consolidating its position as a commercial bank in South Africa's financial environment and to re-enforcing its status as this country's only fully-fledged Islamic bank into the future.

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

Adnan Ahmed Yousif
Chairman

10 April 2014

Shabir Chohan
Chief executive

Human Resources Report

At Al Baraka Bank, we acknowledge that each and every member of our staff is regarded as a brand ambassador for our business and that staff satisfaction has a direct impact on our customer service, profitability and reputation within the banking industry locally and internationally.

The 2013 financial year proved to be a highly successful period for our human resources function.

Innovation and the introduction of technological advancements to our systems and processes has allowed for our partnering with our various business units, so enabling the achievement of a range of strategic objectives.

The human resources function at Al Baraka Bank is considered to be a key strategic enabler, geared to ensuring the acquisition, development and retention of the bank's intellectual capital.

Talent management
Al Baraka Bank boasts a dynamic workforce profile.

No less than 54% of our staff complement is made-up of women, while our average age profile is just 33 years of age.

In addition, our talent management strategy is targeted towards improving the company's overall organisational climate, thereby facilitating the development of a highly productive work environment and a business culture to which staff may feel proud to be affiliated.

Al Baraka Bank operates a lean and effective structure and therefore regards succession planning as being critical to ensuring that the bank continues operating in a totally seamless and productive manner regardless of natural attrition.

The bank's training and development and performance management strategies are, therefore, inextricably linked to the need to ensure the effective succession planning of key and skilled staff.

Talent acquisition
The creation and retention of a viable leadership pipeline and the growth and development of critical skills within the bank have always been key focus areas and apply - more than ever - as we enter the 2014 financial year. Allied to our successful and valuable succession planning activities, the bank applies stringent recruitment and selection mechanisms, the consequences of which ensure that we employ staff members with the ability to stretch themselves, so becoming capable of success at the next business level.

The bank's graduate development programme, which has been operational since 2008, has proved to be a tremendous success and a highly strategic talent acquisition intervention.

The attraction of suitably qualified, high calibre young professionals with a passion for Islamic banking has allowed us to develop and nurture a range of talent which has shown itself to be a superb cultural fit with our organisation.

A high performance culture
During the 2013 financial year we renewed our emphasis on the delivery of sales and customer service. Our goal for 2013 - and beyond - was to put into practice a high performance culture within Al Baraka Bank and this strategy was consciously incorporated into the bank's high performance objectives for the period under review.

Accordingly, the performance development plans of all our members of staff were aligned to the bank's strategy as a means of ensuring increased profitability and a greater return on shareholder value.

Training and development
Our long-term goal is to foster a culture of continuous learning by the bank's members of staff.

Through our partnership with the Bank SETA, as a stakeholder, Al Baraka Bank has been successful in securing funding for Masters Programmes, learnerships and scarce skills development.

Employee recognition
In recognising the critical importance of our members of staff and the role they play in taking our business to new heights, the 2013 financial year heralded the successful implementation of staff recognition awards.

These were celebrated both nationally and at head office. In addition and in an Al Baraka Bank first, the review period saw the execution of a prestigious graduation ceremony for 25 employees who, in 2013, successfully completed the Bank SETA learnership qualification, namely, the National Certificate in Banking: Core Banking and Financial Services.

	AIC*		White		Total		Total
	male	female	male	female	male	female	
Top management	1	-	-	-	1	-	1
Senior management	3	-	1	-	4	-	4
Professionally qualified and experienced specialists in mid-management	27	9	2	2	29	11	40
Skilled technical and academically qualified workers, junior management and supervisors	61	57	3	-	64	57	121
Semi-skilled and discretionary decision-making	31	79	-	-	31	79	110
Unskilled and defined decision-making	6	8	-	-	6	8	14
Total	129	153	6	2	135	155	290

*AIC = African, Indian and Coloured

Information Technology Report

The 2013 financial year witnessed a number of strategic progressions within the bank's business environment as we endeavoured to continue broadening the scope of our corporate services.

This, coupled with the pursuit of growth opportunities in existing areas of our retail banking activities, has realised the introduction of various technologies, systems and process re-engineering efforts to meet the increased demand for services.

In support of this and as strategised during the previous review period, the objective of extending corporate services in respect of foreign trade was achieved with the successful implementation of our Trade Innovation System.

This was designed to facilitate transaction processing requirements in line with international standards.

In addition to this significant milestone, the implementation of a cheque processing system was also integrated within the bank's hosted electronic banking platform.

During the latter part of the review period, the automation of the guarantees process to handle the issuance and release of performance and property guarantees was completed.

This development, together with the introduction of global trade services and the cheque account product, has had a marked influence over the bank's corporate identity, whilst strengthening the bank's competitive advantages in terms of its broader strategic positioning.

Within the branch and head office processing environments, existing systems were enhanced to improve credit application processing efficiencies and additional data validations were introduced to encourage one-time data capture principles.

In addition, a functionality geared to allow for a consolidated customer view was implemented to improve internal and external customer service efficiencies at both a corporate and retail level.

From a productivity perspective, our human resources systems were upgraded to include a performance management module to enhance the management, measurement and monitoring of employee performance and productivity, with particular reference to strategic targets and objectives, whilst not losing sight of staff training and development needs.

The proliferation of mobile devices in the workplace, which has had the inevitable effect of introducing associated risks, has prompted our bank to incorporate additional layers of security in the form of mobile device management systems, integrated access controls and the hardening of wireless security standards.

With regard to mobility, the 2013 financial year saw us initiate an assessment of mobile banking and mobile payment solutions, with a view to facilitating transaction processing and services distribution channels within the banking sector.

In keeping with ongoing regulatory returns and compliance obligations, a number of systems were introduced or enhanced so as to address bank reporting requirements and integration with respective authorities' host systems.

The enhancement of systems and processes to address the Foreign Accounts Tax Collection Act (FATCA) and Protection of Personal Information Act (POPIA), amongst other regulatory and compliance requirements, is ongoing.

The outlook for the period ahead is encouragingly optimistic with a progressive trend in information systems and technology developments incorporating projects such as Business Process Re-engineering to automate manual processes, eliminate duplicate data capturing processes, enhance organisational efficiencies and streamline internal/external customer service capabilities.

Other strategic focus areas include the enhancement of existing systems to facilitate additional foreign trade instruments and associated reporting requirements, the implementation of high-availability systems to minimise the risk of customer service disruptions, thus ensuring continuity of critical business operations, the hardening of the information security environment and the underpinning of organisational effectiveness by reinforcing key elements of corporate governance in line with King III and supported IT governance frameworks.

Corporate Governance Report

The purpose of the corporate governance report is to provide the stakeholders of Al Baraka Bank with an overview of the board's commitment to and monitoring of the governance process in relation to the business environment within which the bank operates.

The implementation of good corporate governance is fundamental to the manner in which the bank conducts its business. To this end, the board of directors, supported by management, is committed to conducting the business of the bank in both an ethical and transparent manner, thereby seeking to ensure long-term sustainability on behalf of all stakeholders.

Both the board of directors and management team remain steadfastly committed to implementing the highest standards of corporate governance throughout the bank and its business operations. The bank endorses the principles contained in King III and has sought to implement these principles where deemed appropriate, utilising an 'apply or explain' approach. Where the board is of the view that practices recommended in King III are not appropriate for the bank, reasons for utilising an alternative approach are provided. In terms of the 2013 financial year, the board is satisfied with the way in which the bank has implemented the recommendations contained in King III, or, where the recommendations are not appropriate to the nature and business of the bank, has effectively put in place alternative practices.

Whilst 2013 remained challenging from a corporate governance perspective, it was not without its highlights, some of which included the following:

- The adoption of Al Baraka Bank's new memorandum of incorporation, which is in keeping with the requirements of the Companies Act, No. 71 of 2008, as amended;
- The review of the executive succession plans, which culminated in the appointment of Mr MJD Courtiade as the Chief Operating Officer, Mr A Ameed as the Acting Financial Director and Mr M Kaka as the Executive: International Banking; and
- The introduction of a dedicated online directors' portal, operating within the confines of a secure environment. Through this portal, directors are able to view their board and board committee papers electronically, together with other relevant and appropriate documentation impacting on the business life of the bank.

The board of directors is committed to ensuring that the journey of corporate governance embarked upon by the bank and which was established on the principles of responsibility, accountability, fairness and transparency, will continue to develop and be refined during the course of 2014.

Board of directors

Role and function of the board

The board of directors, being the body responsible for determining the bank's strategy and business operations, is also the guardian of corporate governance for the bank. The board acknowledges that its strategic objectives need to ensure the long-term sustainability of the business, whilst also seeking to address the changing social, environmental and transformational challenges which operating within the dynamic financial sector brings into play.

Board structure and composition

Al Baraka Bank has a unitary board structure. As at 31 December 2013, the board comprised 11 directors, seven (64%) of whom are independent non-executive directors, two (18%) of whom are non-executive directors and two (18%) of whom are executive directors, being the chief executive and the chief operating officer. During the course of 2013, Mr MJD Courtiade, formerly the bank's financial director, was appointed as chief operating officer. To address the requirements of King III, Mr A Ameed, previously the general manager: finance, was appointed acting financial director.

The board acknowledges that the environment within which the bank operates is subject to ongoing change. For this reason, the directors' affairs committee conducts an annual review of the composition of the board, to ensure that the diversity of the board composition, the skills and experience of the directors which they bring to the board, as well as the demographic profile of the board remains both appropriate and relevant to the business of the banking sector. Through this process of annual review, the directors ensure that the board composition is such that dominance by an individual director in the process of decision-making is negated.

The roles and responsibilities of the chairman and the chief executive have been well defined by the board and are separate. The board has appointed a non-executive director, Mr AA Yousif, as chairman. Mr Yousif is not deemed to be an independent non-executive director as he currently occupies the position of president and chief executive of Al Baraka Banking Group, which is the major shareholder of the bank in South Africa. However, given Mr Yousif's general banking experience and in-depth knowledge of Al Baraka Banking Group, the board is of the opinion that Mr Yousif is best suited to fulfil the role of chairman. The chairman is appointed annually, in line with the recommendations of King III. The board of directors has further extended this to the vice-chairman, who is also elected on an annual basis.

Mr SA Randeree fulfilled the function of lead independent director, which is also in keeping with King III recommendations.

Independence of directors

The board of directors affirms the principle contained in King III that an independent director should not only be independent in character and judgement, but should also be independent in fact and in the perception of a reasonably informed outsider. In view of this, the directors' affairs committee is responsible for reviewing, on an annual basis, the independence of independent non-executive directors who have served longer than nine years on the board together with other factors that may impair their independence.

The directors' affairs committee, having conducted its review, is of the opinion that Adv. AB Mahomed SC, Mr YM Paruk and Mr MS Paruk continue to be independent in both character and judgement, notwithstanding their respective lengths of service on the board of directors.

Succession planning

Succession planning continues to be an important area of focus, especially at board, executive and senior management level. The directors' affairs committee conducts an annual review of the composition of the board and board committees, the purpose of which is to ensure that the business needs of the bank, from both a current and a future perspective, are capable of being met. Arising from this review, the board is satisfied that the succession planning requirements of the bank are sufficiently addressed through the leadership talent that is available to the bank. The appointment of directors to the board is both a formal and transparent process and is conducted in terms of prevailing legislative and regulatory requirements, which specifically includes the Banks Act of 1990 and the Companies Act of 2008, as amended. Where appropriate, suitable candidates are identified and subsequently recommended to the full board of directors for approval. Should the Reserve Bank not raise any objections to the proposed appointment, the director may be formally appointed to the board of directors.

Strategy formulation

The board approves the long-term and short-term strategies for the bank, ensuring that the strategy is aligned with the overall purpose of the bank, whilst also taking into account the value drivers of the business, coupled with the interests of stakeholders.

Being responsible for the effective control of the bank, the board closely monitors the practical implementation of the approved strategy.

The board is also responsible for determining Al Baraka Bank's corporate governance and risk management objectives, in terms of prevailing banking regulatory requirements. In this regard, the board is satisfied that the objectives set for 2013 have been satisfactorily achieved.

Delegation of authority
Al Baraka Bank has a well-established corporate governance structure in place, through which the board retains effective control of the business of the bank. The board has defined its own levels of materiality, reserving specific powers to itself, whilst delegating other powers to the board committees and the chief executive. The chief executive, in turn, delegates appropriate powers to management, such that the business of the bank may be conducted on a day-to-day basis. Recognising the changing nature of the banking business environment, the board of directors annually reviews delegated powers of authority, so as to ensure that they remain relevant and may be utilised to assist management in the successful attainment of the bank's business objectives.

Director development
The board of directors supports and encourages ongoing director development, on the understanding that such development will assist in fostering improved governance practices, not only within the board, but also throughout the organisation. Directors are kept informed in respect of developments pertaining to legislation and regulations which impact on the business framework of the bank. Where appropriate, directors are encouraged to attend external training courses, the costs of which are borne by the bank. During the course of 2013, the board received an update on Basel III matters, which programme took place outside normal board meetings.

As part of the induction process for newly appointed directors, they are introduced to key members of management and the business operations of the bank. In addition, upon appointment, directors receive a governance pack comprising relevant governance information, inclusive of board policies, financial reports, charters of the board and the board committees, relevant sets of minutes and copies of legislation and regulations which impact on the operating environment of the bank.

Performance assessment
In order to assess its level of effectiveness, the performance of the board is evaluated on an annual basis, in keeping with the practice recommended in King III.

The process of assessment, which was conducted internally and not through the means of external consultants, includes not only the board, but also the committees of the board, the chairman and the chief executive, as well as individual directors, both non-executive and executive. The directors' affairs committee, having analysed the findings of the series of evaluations, reports its findings to the board of directors.

The outcome of such evaluations confirmed that there were no issues of a material nature which needed to be addressed by the board.

Board meetings
In accordance with the requirements of its charter, the board of directors met on four occasions during the course of 2013. Additional meetings may be convened where necessary, in order to address issues which may impact on the bank between planned board meetings. Through a process of consultation with the board, meeting dates are scheduled well in advance for the following year. Also included in the director's year planner are the regulatory meetings scheduled with the South African Reserve Bank, which are usually scheduled to co-incide with a board meeting.

Where directors are unable to attend board and board committee meetings for any reason, they may attend via teleconference or other electronic means. In this way, their views may still be taken into consideration, especially with regard to key and strategic matters.

Access to information
Board documentation is distributed in a timely manner ahead of board and board committee meetings, thereby allowing directors sufficient time within which to familiarise themselves with the material.

The availability of board documentation has been expedited with the introduction of the directors' portal during the 2013 financial year, which has significantly enhanced the distribution of board material, whilst still retaining its confidentiality.

Board documentation includes both financial and non-financial information, the latter allowing directors to consider issues of qualitative performance.

In order to allow the board to discharge its corporate responsibilities, the directors are empowered to consult with professional advisors on any subject, should they so wish.

The cost of such advice will be at the bank's expense. Directors are also empowered to engage with members of management in the absence of executive directors. Such meetings are, as a matter of courtesy, co-ordinated through the office of the chief executive.

The board has formulated a comprehensive charter, which sets out its duties and responsibilities in a clear and concise manner.

The charter is reviewed annually, the purpose of which is to establish whether it requires amendment and also to assess how the board is performing against charter items.

The board charter addresses, inter-alia, the following matters:
- Formulation of the bank's strategic plan and overall management of the bank;
- Determination of the board committees;
- Implementation of effective risk management processes;
- Approval of budgets;
- Monitoring of the performance of the chief executive, the executive directors and the executive management team;
- Compliance with laws and regulations;
- Reputational risk;
- Stakeholder communication;
- Directors selection, orientation and evaluation; and
- Board and board committee composition.

Corporate Governance Report (continued)

The table below sets out, at a glance, attendances at the 2013 board and board committee meetings:

Name of Director/ Member	Board	Audit	Risk and capital managment	Board credit	Directors' affairs	Remuneration	Social and ethics
AA Yousif	3/4 [1]	-	-	-	-	-	-
SA Randeree	4/4 [2]	-	-	3/4 [1]	1/2 [1]	4/4	-
F Kassim	4/4	-	-	-	2/2	-	-
A Lambat	4/4	5/5	4/4 [1]	-	-	-	-
Adv. AB Mahomed SC	4/4	5/5	4/4	-	-	4/4	-
MS Paruk	4/4	5/5 [1]	4/4	4/4	-	-	-
YM Paruk	4/4	-	4/4	-	-	4/4 [1+6]	-
M Youssef Baker	3/4	4/5	-	-	2/2	-	2/2 [1]
SAE Chohan	4/4	-	-	3/4	-	-	2/2
MG McLean	4/4	-	-	4/4	-	-	-
MJD Courtiade	4/4	-	4/4	-	-	-	-
EM Hassan	-	-	-	4/4 [3]	-	-	-
Y Nakhooda	-	-	4/4 [4]	-	-	-	-
Adv. MA Vahed	-	-	-	-	-	-	2/2 [5]

[1] = Chairman, [2] = Deputy chairman, [3] = General manager: credit

[4] = Risk manager, [5] = Executive: regulatory and compliance, [6] = Chairman, with effect 20 May 2013

Board committees

The board of directors acknowledges that it is ultimately responsible for the overall performance of the bank. Recognising this, the board has appointed several committees to assist it to meet its objectives. Notwithstanding that the board delegates certain functions and powers to the board committees, the board confirms that such delegation does not detract from the fact that the board bears ultimate responsibility for the performance of the bank.

The board has established six standing committees, namely the audit committee, the risk and capital management committee, the board credit committee, the directors' affairs committee, the remuneration committee and the social and ethics committee. The board has also established the board property committee, a specialist committee whose function it is to oversee the development of the bank's property, which it acquired at Kingsmead Office Park. Upon the completion of the property development, the board property committee will have completed its mandate and will be disbanded.

Each of the standing board committees possess charters, which record the rights, powers, duties and functions of the respective board committees. The charters are currently reviewed on an annual basis, together with an assessment as to whether the committee in question is fulfilling its terms and conditions.

As part of the governance process employed by the board, the chairmen of the board committees provide the board with feedback on issues discussed at the most recent committee meetings, such that the board obtains an understanding of the material issues discussed in greater detail at the committee meetings. Minutes of the board committees also form part of board documentation, thus further supporting the board's commitment to an open and transparent process of corporate governance.

The governance framework also includes various management committees, whose objectives are to support the board and board committees in the efficient execution of their responsibilities and duties. The management committees include the executive management committee, the executive credit committee, the management risk committee, the assets and liabilities committee, the FICA executive committee and the IT steering committee. Where necessary, specialist committees are established in order to achieve specific objectives.

The board has reviewed the terms of reference of the board committees and is satisfied that the committees have fulfilled their mandates appropriately.

The principal functions and responsibilities undertaken by the board committees are set-out hereafter.

Audit committee

The statutory report of the audit committee, whose responsibilities are determined in accordance with the requirements of the Companies Act of 2008, as amended and the Bank's Act of 1990, as amended, forms part of the annual financial statements.

During the course of its meetings in 2013, the audit committee:

- Reviewed the state of the bank's internal controls;
- Considered and reviewed various reports from internal audit, the Shariah Department and compliance in terms of a variety of matters impacting on the bank;
- Addressed the Reserve Bank's 'flavour of the year topics' ; and
- Met independently with the external auditors and internal audit.

Members of the audit committee are all independent non-executive directors and are financially literate.

The audit committee met five times during 2013.

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MS Paruk
Chairman: audit committee

Risk and capital management committee

The role of the risk and capital management committee is to primarily assist the board, as well as management, in addressing all issues of risk confronting the bank.

The terms of reference of the risk and capital management committee are set out in its charter and are designed to:

- Assist the board in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the bank in the day-to-day management of its business;
- Assist the board in developing a risk mitigation strategy to ensure that the bank manages risks in an optimal manner;
- Assist the board in ensuring that a formal risk assessment is undertaken at least annually;
- Assist the board in identifying and regularly monitoring all key risk and key performance indicators to ensure that its decision-making capability and accuracy of its reporting is maintained at a high level;
- Ensure that the processes relating to capital in terms of the bank's internal capital adequacy programme are adequately set aside to the level of risk facing the bank; and
- Establish and implement a process which states capital adequacy goals with respect to risk, taking into account the bank's strategic focus and business plan.

The risk and capital management committee met four times during 2013. The committee is chaired by an independent non-executive director. The risk and capital management committee is satisfied that it discharged its responsibilities in accordance with the terms of its charter.

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A Lambat
Chairman: risk and capital management committee

Corporate Governance Report (continued)

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

The terms of reference of the credit committee are recorded in its charter and are designed to:

- Ensure that the bank's credit risk management process is aligned with the group's credit risk strategy;
- Approve advances in terms of board-approved delegations;
- Approve credit authority and mandate levels, as per its delegated power of authority;
- Review the bank's credit risk management policy for adequacy and ensure that such policy is approved by the board;
- Approve write-offs of debtor accounts within its delegated authority;
- Monitor the credit recovery processes and the progress made on all matters handed over for legal action, including facilities that are long outstanding and that require additional attention and supervision; and
- Ensure that Al Baraka Bank complies with all regulatory returns in respect of credit risk functions.

Mr SA Randeree was confirmed by the board as the chairman of the credit committee in November 2013. Prior to this appointment, Mr Randeree had served as the interim chairman of the credit committee.

Mr Randeree is classified as an independent non-executive director.

The credit committee met four times during 2013. The credit committee is satisfied that it discharged its responsibilities in accordance with the terms of its charter.

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SA Randeree
Chairman: credit committee

Directors' affairs committee
The role of the directors' affairs committee is to assist the board of directors in its determination and evaluation of the adequacy, efficiency and appropriateness of corporate governance structures and accompanying practices of the bank.

In order to achieve this objective, the directors' affairs committee:

- Provides a forum for non-executive directors to meet without executive directors and management;
- Identifies, evaluates and recommends nominees to the board of directors in terms of an agreed process;
- Ensures that an appropriately structured induction training course is formulated and implemented for all new directors and that there is ongoing development for directors;
- Annually reviews the structure, size and composition of the board taking into account the requirements of the board committees;
- Regularly reviews the composition, skills, experience and other qualities required for the effective functioning of the board and the board committees; and
- Considers methodologies for the annual assessment of the performance of the board and board committees and contribution of the individual directors.

Membership of the directors' affairs committee is limited to non-executive directors, which is a requirement of section 64B of the Banks Act. Given this legislative requirement, the chief executive attends meetings of the directors' affairs committee strictly by invitation only. The directors' affairs committee met on two occasions during the course of 2013. 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 remuneration committee advises the board of directors on a wide range of human resource issues, with special emphasis on matters of remuneration and staffing.
Some of the functions of the remuneration committee include the following:

- To utilise surveys, external independent remuneration consultants and industry data in determining salary structures for the staff;
- To make recommendations to the board on succession planning issues, both at senior management and executive management level;
- To ensure that the appropriate quality of executive and senior management is attracted, retained, motivated and rewarded;
- To ensure that an employment equity policy exists that addresses, amongst other things, discrimination, disputes, affirmative action and disciplinary action;
- To be responsible for recommending to the board any share or share incentive scheme; and
- To ensure that employees' incentive payments are linked to the contribution of the individual and business performance.

The remuneration committee is chaired by an independent non-executive director and met on four occasions during 2013.

Mr YM Paruk became chairman of the remuneration committee during the course of 2013, succeeding Adv. AB Mahomed SC. The remuneration committee is satisfied that it discharged its responsibilities in accordance with its charter.

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YM Paruk
Chairman: remuneration committee

Social and ethics committee

The social and ethics committee was established during the course of 2011, pursuant to the introduction of the new Companies Act in May 2011.

The role of the committee, as stated in its charter, is to monitor Al Baraka Bank's activities to ensure that they are being conducted ethically and comply with banking legislation, legal requirements and best practice in the banking sector, with particular reference to regulators, clients, employees and environment.

To achieve its obligations, the social and ethics committee implemented an action plan during 2013 which included a number of initiatives to support the local communities and NGOs in South Africa by way of donations, besides providing training to Al Baraka Bank's employees to enhance their knowledge of banking, improve their careers and ensure that the bank's operations are conducted in an ethical and responsible manner and that the interests of its various stakeholders are maintained.

The social and ethics committee is chaired by an independent non-executive director.

The composition of the committee is in accordance with the requirements of Regulation 43 of the Companies Act Regulations 2011. The social and ethics committee met twice in 2013.

The social and ethics committee is satisfied that it discharged its responsibilities in accordance with its charter.

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M Youssef Baker
Chairman: social and ethics committee

Corporate Governance Report (continued)

Company secretary

The company secretary is responsible for ensuring that the board of directors remains up-to-date with developments in the area of best governance practice.

All directors have access to the services of the appropriately qualified and experienced company secretary. The company secretary is responsible for all administration relating to the board and board committees, which includes the preparation of relevant meeting packs.

One of the functions of the company secretary is to oversee the induction of new directors, as and when such appointments are made.

The board is of the view that the company secretary and the board have maintained an arms-length relationship. In support of this view, the company secretary is neither a director nor a prescribed officer.

Ethics

The board of directors acknowledges that conducting business in an ethical manner is key to the long-term sustainability and success of the business.

Al Baraka Bank has developed a code of business conduct, with the board confirming that employees who place a high premium on ethical behaviour are essential to the ongoing success of the bank's business.

The board adopts a zero tolerance approach in respect of ethical misconduct, expecting its members of staff to display the highest levels of integrity in their endeavours at all times.

Codes of transformation

With the introduction of the financial sector code, Al Baraka Bank will conduct its future Broad-Based Black Economic Empowerment (B-BBEE) reporting in terms of this code. Al Baraka Bank is, in terms of its current BEE rating, classified as a Level 3 Contributor.

Remuneration paid to employees who have a material impact on the bank's exposure to risk

Aggregate compensation of other executive, general and senior management, other than directors, who have a material impact on the bank's exposure to risk equated to R11,3 million (2012: R9,7 million).

Sustainability Report

Introduction

In terms of King III, South African companies should generate integrated reports regularly. Reports should detail the impact such companies have on the economic, environmental and social well-being of those communities with which they interact.

In this regard, Al Baraka Bank believes sustainability reporting to be a substantive platform within the very heart of the company's business.

We aim to ensure that stakeholders are informed of our history, performance and future planned interventions as regards the bank's triple bottom line.

We readily embrace the philosophy of sustainability and its transparent communication to stakeholders and the broader public. In keeping with this approach, Al Baraka Bank's integrated annual report provides stakeholders with a holistic and fully integrated account of the organisation's financial and sustainability achievements.

Al Baraka Bank has adopted an eco-efficiency approach to company operations and works to ensure its continuous adherence to fair and equitable business practices; practices which reflect the ever growing integration of economic, environmental, social and ethical values.

In this respect, our quest is simple. It is to significantly reduce waste and inefficiencies of operation as a means of creating financial savings and the protection of the environment.

Company overview

Al Baraka Bank is South Africa's only fully-fledged Islamic bank and is fully committed to the delivery of Shariah-compliant banking in this country.

The bank's vision is to provide society with a fair and equitable financial system; one which rewards effort and contributes to the development of the community we serve.

In giving effect to this vision, we make certain that we conduct our business operations in an ethical manner and in accordance with Islamic beliefs. Ours is a company which strives for the highest professional business standards and is dedicated to sharing the benefits it derives with its customers, shareholders and members of staff.

Al Baraka Bank is actively implementing and rolling-out a business strategy tailored to both maximise profits and ensure best practice in the defence of the environment.

Strategic business objectives, competencies and key performance indicators

Our bank sets out to meet four broad strategic business objectives. These include:

- Increasing returns to shareholders;
- Promoting customer service excellence;
- Developing innovative products; and
- Utilising enhanced technology.

Identification of risks and opportunities

We seek to identify risks and opportunities, utilising a number of methods and processes to successfully manage such risks and to use to our advantage the opportunities we encounter in the day-to-day business of the bank.

Through the execution of our enterprise risk management strategies, the bank manages its overall financial risk, together with risks which may be associated with strategy, operations, reporting and all aspects of regulatory compliance.

Organisational and governance structure

Good governance is regarded as a critical cornerstone of our business.

We accordingly ensure the bank's strict adherence to the principles of good governance, especially in terms of the four pillars which underpin the corporate governance concept, namely responsibility, accountability, fairness and transparency.

Our directors' affairs committee of the board annually reviews the bank's obligation to the execution of sound corporate governance practices, in line with the recommendations of King III, the result of which enables our management to constantly improve its levels of compliance.

Critically, however, given our financial institution functions as a Shariah-compliant bank, it must be noted and accepted that the following is prohibited:

- Collection or payment of interest;
- Transactions involving excessive risk and speculation; and
- Investment in prohibited activities.

By following Islamic business principles, Al Baraka Bank remains true to Shariah standards, as published by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with such standards, our bank avoids investment in non-Shariah-compliant fixed-income instruments or securities, does not hold cash balances in interest-bearing accounts or assets and does not invest in any company which may be involved in alcohol, tobacco, pork, casinos, hotels or conventional banks.

Managing sustainable development

We are of the opinion that business sustainability and its effective management requires a conscious step-change, relinquishing the more traditional short-term focus on profitability in favour of seeking to stimulate more enduring performance in terms of, especially, economics, governance, social matters, ethics and - importantly - the environment. Such an approach generates sustainable shareholder value, while also enabling the more effective management of the interests of stakeholders.

Ethical behaviour

The bank promotes ethical investing, thereby ensuring totally sustainable and responsible investment policies and practices throughout its operations.

Sustainability Report (continued)

The functions of our social and ethics committee of the board include the monitoring of the bank's activities, having due regard for legislation and best practice in terms of ethics and stakeholder management, with particular reference to our members of staff, the communities we serve, consumers and the environment. In addition and as a responsible bank, we take cognisance of issues of gender equality and disability opportunities within our business.

We document here the economic, environmental and social features which impact on the methodology behind which we undertake our business:

Economic:
As a Shariah-compliant financial institution, Al Baraka Bank takes most seriously the need for responsible financing, evidenced in our adherence to requirements, as set out in both the National Credit Act and the Consumer Protection Act.

Our overriding objective is to create long-term and sustainable economic value for our stakeholders. We look to the generation and implementation of risk management systems which enhance our bank's stated adherence to good corporate governance principles, compliance with all laws and regulations and alignment with ethical business practices.

In so doing, we believe it possible to appreciably grow shareholder value.

Importantly, the bank's stringent client-risk profiling, which has resulted in the minimal need for legal recourse, goes a long way towards ensuring a sustainable bank from an economic perspective.

This leads to the bank paying keen attention to the financial viability of projects, thus spurring employment growth in small and medium-sized businesses, as well as wealth creation and distribution within local communities.

Environmental:
Entrenched in the charter of our social and ethics committee is a commitment to the proactive protection of the environment and the conservation of natural and renewable energy resources.

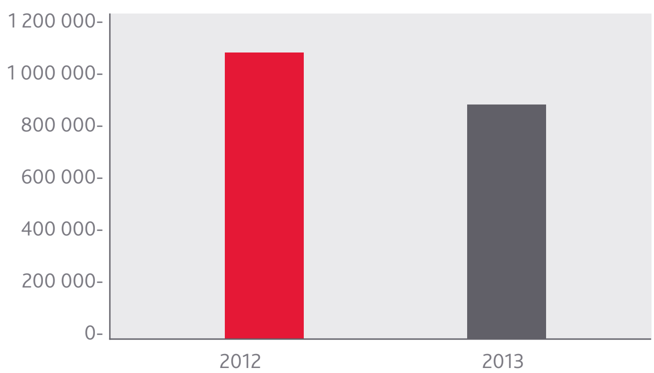
While we are aware that the bank's environmental impact is not as extreme as those enterprises active in the South African manufacturing sector, we remain cognisant of our responsibility in terms of promoting energy conservation and limiting the utilisation of scarce and non-renewable resources.

We continuously assess our approach to environmental sustainability and identify and implement additional measures which will enable us to further minimise our company's eco-footprint nationally. Such measures include, but are not limited to:

- The change from conventional light bulbs to high-performance, energy-saving LED down-lighters, in line with a rebate provided by energy utility, Eskom;
- The maximisation of natural light at Al Baraka Bank outlets and, especially, its Durban-based head office and Kingsmead branch, both of which were architecturally designed to filter natural light effectively and efficiently;
- The minimising of paper use by members of staff, through the promotion of electronic communication and the facilitation of electronic communication with the bank's shareholders;
- The introduction of shared multi-function devices on a national basis, so reducing the number of individually operated devices and enabling the close monitoring and measurement of paper usage;
- The encouragement of shareholders to accept electronic communication with the bank's transfer secretaries, so bringing about a reduction in paper consumption, while also limiting the need for road and/or air transport and postage requirements;
- The implementation of a strategy designed to create within the bank a paperless operating environment;
- The effective sorting of all waste into recyclable waste and so-called 'wet waste' before removal from the bank's outlets;
- The conclusion of a Service Level Agreement with a recycling company responsible for the collection and recycling of e-waste, inclusive of toners and ink cartridges. The proceeds from such operations are donated to a non-profit organisation committed to funding opportunities for historically disadvantaged persons with physical disabilities;
- The automatic after-hours shutdown of both the centrally-ducted air-conditioning and lighting systems throughout the bank's head office and Kingsmead branch;
- The maintenance at head office of an atrium, bedded with indigenous plants and vegetation which promotes improved air quality within the confines of this multiple-volume four-storey building;
- The provisional plan to contribute to inner-city regeneration and greening programmes, where possible, through the development of available properties for environmentally-friendly car-parking facilities and public open spaces; and
- The introduction of more extensive office video conferencing facilities nationally, thus reducing the need for unnecessary air travel and improved time management, effectively decreasing the bank's overall carbon footprint.

An electricity management system, introduced at the bank's head office and Kingsmead branch in 2012, has enabled management to monitor energy consumption monthly, resulting in marked savings in electricity usage, as reflected in the accompanying graph.

Total comparitive electricity consumption (kWh): head office/Kingsmead branch



Social:
South Africa is beset by a massive backlog of socio-economic challenges.

We recognise that the business community in this country has a telling role to play in assisting to overcome these challenges.

Since 1994, the bank has been actively involved in a comprehensive corporate social investment programme as its contribution towards the upliftment and empowerment of disadvantaged communities across South Africa. We specifically target five areas of concern, namely education, health, poverty alleviation, security and humanitarianism.

Our corporate social investment programme is closely monitored by the social and ethics committee of the board. In addition, we regularly report our social investment activities to the Bahrain-based international banking group, Al Baraka Banking Group, of which our bank is a subsidiary.
We encourage members of our staff to become ambassadors for our

corporate social investment initiatives, by becoming involved in supporting worthy causes. During the period under review, many members of staff 'donated' 67 minutes of their time during working hours to assist a range of causes nationally, marking Mandela Day.

The 2013 financial year saw our bank contribute some R9,0 million to organisations and causes within the broad framework of our national programme.

Stakeholder Engagement

In response to King III requirements, Al Baraka Bank is rolling-out a board-approved stakeholder policy to ensure functional engagement with its various stakeholder groups around the country.

Customers:
Without customers our bank would have no business and we therefore strive to ensure that our focus is and remains on customer-centric service delivery.

We regularly engage with customers in order to interrogate and understand our customers' needs as regards new product development and use such interaction to proffer professional financial advice and details of the existing range of financial products provided by the bank. In essence, we are driven by the need to provide each and every customer with exceptional banking services during their every interface with the bank, regardless of the level of such dealings. Accordingly, we instil in our members of staff a keen sense of service delivery and believe that every member of our staff complement should live the service ethic.

This ethic is regularly tested by way of customer interactions, inclusive of 'mystery shopping' surveys, enabling the bank to determine customer opinion with regard to service delivery experiences at any of the bank's outlets nation-wide. We take feedback received most seriously and ensure the implementation of corrective behaviour where deficiencies are encountered.

We employ a customer service centre sharecall telephone facility and regard this as a critical tool through which to attend to customer queries, concerns, complaints and compliments, all in the most timely manner.

We use this and other channels of interaction, such as a system - currently being phased-in - for the recording, throughout the network, of calls pertaining to foreign exchange transactions and customer service issues, so as to rapidly and accurately examine customer feedback, thus ensuring measured and carefully considered new product implementation.

As part of our commitment to responsible banking and to ensuring the delivery of fair and equitable business practices, our bank has for some years utilised the services of an externally-based anti-fraud hotline, managed through the offices of an internationally-based firm of auditors.

Employees:
Recruitment and training –
The bank regards its staff complement as its single most important asset; an asset which makes business in the financial sector possible.

Given that Al Baraka Bank operates in a highly regulated business and legal environment, we deem it critical that members of our staff adhere stringently to the very highest standards, display absolute integrity, total honesty, high morals, complete accountability and a strong disposition towards customer service.

In view of this, we seek to attract, develop and retain the country's top talent.

Bringing staff to their full potential, the bank provides a comprehensive training and development programme designed specifically to promote a necessarily high performance culture throughout the bank.

In addition, the bank recognises the need for a commitment to the principles behind the need for effective transformation in the South African business environment generally and the financial sector specifically.

This, then is a key focus for both our board and management.

We also believe implicitly in the provision of access to a range of Islamic educational initiatives, whilst also giving effect to fast-tracking high-performing graduates.

We have had in place since 2008 a graduate recruitment programme which is expressly designed to afford young, talented, driven graduates the opportunity to equip themselves with the skills and experience required to be successful in the working world.

In our estimation, the implementation of effective graduate programmes within the business sector is rapidly becoming a private sector imperative because the pace of business today simply does not allow for the time necessary to spend acclimatising young first-time job-seekers to the world of work and to train them in the ways of business, as employees.

It is widely acknowledged that companies want and expect new employees to begin contributing immediately and, therefore, schemes such as our graduate recruitment programme play a critical role in bridging the gap between a student's study life and the real business environment.

Importantly, BANKSETA funding was secured for the sponsorship of all-encompassing banking programmes, providing members of both staff and management with improved prospects for career growth within the bank. Such programmes include access to MBA studies, opportunities a number of members of the bank's team have taken-up.

Managing diversity –
The bank believes that differences amongst people should not result in the alienation of any group and is of the opinion that such differences should rather foster a sense of inter-dependence in the workplace.

Recognising this important principle, we seek to bring together in a single business culture the diversity of our employees, celebrating and encompassing the beliefs and values of all.

We, therefore, embrace the principle of diversity, using it to inspire mutual respect, a sense of belonging and a feeling of self-worth.

Transformation –
We remain committed to the process of transformation in the business context and fully support such principles, including the need to employ representatives of historically disadvantaged groups, inclusive of women and people with disabilities.

We also acknowledge and embrace the transformation policies passed by the Department of Trade and Industry and as a private sector business entity, diligently apply, where appropriate, a preferential procurement policy.

The bank will utilise the Financial Sector Code to report on its Black Economic Empowerment performance.

Employment equity –
Coupled with the above sentiments, our bank supports employment equity ideals and looks to recruit to our team new staff from historically disadvantaged backgrounds.

We are also intent on quickening the pace of promoting and/or appointing women to senior management positions, whenever the opportunity arises.

Employee wellness –
Productivity is inextricably linked to having a healthy team of employees.

Therefore, the health and welfare of our members of staff receives particularly close attention, as specified in our health and wellness policy.

This policy sets out to advance the overall health and well-being of our members of staff and is achieved through various interventions dealing with education and lifestyle changes. Regular staff wellness initiatives are run at all our branches for the benefit of employees.

In addition, staff are encouraged, where possible, to participate in healthy lifestyle programmes. A number of head office staff have involved themselves in an annual community walk as a means to boost their own wellness levels.

All such initiatives give effect to improved productivity in the workplace and the complete well-being of our members of staff.

Staff communication –
The bank is keenly aware of the need to ensure members of staff are regularly informed about activities which affect the business and decisions which influence the day-to-day operations of the bank.

We make use of several channels to communicate effectively with staff throughout the national office network. These include, but are not necessarily limited to:
- **The chief executive's address**: A staff briefing following each of the bank's quarterly board meetings;
- **The intranet site:** An internal online communications tool providing access to posted information;
- **Social media:** A communications tool utilised by management to quickly and universally reach members of staff;
- **The contact centre:** An email and telephonic contact point as a source of information regarding a range of employee-related matters;
- **Employee self-service facility:** A mechanism enabling members of staff to undertake a number of human resources activities electronically, inclusive of applying for leave, acquiring payslips and the like;
- **Tip-offs Anonymous:** A dedicated external fraud hotline which operates on the basis of anonymity and enables members of staff to 'blow the whistle' without fear of recrimination, secure in the knowledge they are making a difference;
- **Surveys:** A dedicated practice of surveying staff in terms of ethics; and
- **Staff presentations:** A useful method for keeping staff abreast of the latest developments within the bank.

Shareholders:
In accordance with the requirements of the Companies Act, our bank makes certain that it delivers to shareholders all relevant information in a timely manner and on a regular basis.

Its endeavours in this regard are geared towards actively entrenching the principles of absolute transparency and accountability.

In addition, shareholders are invited and encouraged to play an active role in bank decision-making processes by attending and participating in our bank's annual general meetings, held at Al Baraka Bank's head office in Durban.

Giving credence to our commitment to transparency, the chairmen of our various committees of the board and the Shariah Supervisory Board are always present at such meetings so as to provide informed responses to shareholder questions, concerns and queries.

Crucially, the chairman of our board's social and ethics committee makes use of this annual platform to deliver a detailed report on the activities and workings of the committee, requisite to the conditions of the Companies Act.

It is our opinion that appropriately informed shareholders will enjoy a superior appreciation for the bank and its business activities in the certain knowledge that such status will give rise to enlightened decisions and an attendant positive effect on the future of the bank.

Community:
'Your Partner Bank' is our positioning statement and a reflection of our desire to create and build solid relationships with the communities with which we interact around South Africa.

In developing community relationships, we rely on personal interaction, involvement in and sponsorship of community service events, the use of both social media and print media, community outreach by way of educational and upliftment programmes, involvement in community events, the provision of special-purpose publications, inclusive of our integrated annual report and abridged annual report, SMS messaging and our interactive website.

Such varied interaction allows us to act on invaluable community insights and to evaluate requirements, expectations and aspirations, while enhancing awareness of the bank and its role in the provision of Islamic finance.

Regulators and industry bodies:
Being a registered bank and operating within the South African financial services industry, we have established and maintain sound working relationships with the relevant regulatory authorities.

Through our statutory reporting to and interaction with these august bodies, we are able to ensure the bank's adherence to all legal and regulatory requirements.

Our bank also works together with other financial industry and related bodies, including the Banking Association of South Africa and the South African Banking Risk and Information Centre (SABRIC), thus keeping abreast of financial environment trends and developments.

This ensures our capacity to deliver best industry practise to the direct and indirect benefit of our stakeholders.

Media:
Our bank is cognisant of the need to position our brand in the public arena, making available newsworthy matters and events in the interests of keeping the public informed.

We accordingly strike and develop meaningful relationships with key members of South Africa's business and community media (print and electronic) in order to both proactively and reactively comment on matters of public importance.

Suppliers:
Returning to the theme of Broad-Based Black Economic Empowerment, we have implemented a preferential procurement policy.

Through such policy, we ensure the appropriate utilisation of suppliers from historically disadvantaged backgrounds, wherever possible.

Our pledge to following preferential procurement principles stems from the fact that our business is able to make a meaningful contribution to facilitating the sustainable growth and development of all smaller-scale enterprises with which it interacts.

As a further form of stimulus, we employ a fast-track payment system for these business entities, based on the successful completion and delivery to Al Baraka Bank of commissioned works, thus assisting in improving the cash flows of small and medium-sized business concerns.

Conclusion
The information documented here is regarded as a concise expression of the bank's fulfilment of its sustainability responsibilities, the execution of ethical management and control processes and the provision of effective stakeholder communication, as well as a growing commitment to environmental considerations.

In essence, our sustainability report is a measure of our repute within South Africa's financial sector and its position as a responsible corporate citizen.

Looking to the future as regards our sustainability initiatives, our bank is looking to expand and develop its reporting abilities.

In this regard, we intend implementing a number of initiatives, including the harnessing of grey water, beginning with our head office, for use in the irrigation of gardens, the maintenance of the basement parking area and the washing of the bank's fleet of vehicles.

In addition, we are investigating the feasibility of introducing solar cells to offset the powering of general lighting at head office and, ultimately, to extend this to the bank's facilities around the country, where viable. This will allow us to better focus on the integrated performance of the bank into the future.

Finally, no assurance has been attained relating to Al Baraka Bank's sustainability measures for the financial year under review.

Compliance Report

The regulatory landscape has changed significantly over the years with a swathe of new legislation being introduced annually.

The bank ensures the continuous up-skilling of compliance personnel in order to facilitate capable and exceptional service delivery.

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 which had to be reported during the 2013 financial year.

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

- **Anti-money laundering control and combating of terrorism legislation**
  With long-standing procedures and policies in place, the bank enjoys a systematic approach to detecting suspicious activity and reporting such transactions, in the prescribed format, to the authorities. There have been significant enhancements to technology related to anti-money laundering and terrorist detection and the bank continues to explore all relevant systems and processes to assist in this function. The bank's focus on compliance continues being maintained by dedicated branch staff, the anti-money laundering officer and compliance officer.

- **Financial Advisory and Intermediary Services Act (FAIS Act)**
  Al Baraka Bank's licence allows for the implementation of various activities designed to ensure compliance with the Act. These include:
  - The identification and appointment of additional 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 as and when required.

- **Home Loan and Mortgage Disclosure Act**
  This legislation was introduced to level the playing fields in respect of access to residential property finance by formerly disenfranchised members of our society. In this regard, extensive system changes were necessitated by the Act. Further changes in reporting requirements were introduced during the period under review by the Office of Disclosure in the Department of Human Settlements.

  This, in turn, necessitated further extensive enhancements to the bank's systems. The Office of Disclosure is furnished with the required statistics on an annual basis.

- **National Credit Regulations (NCR)**
  The bank complies with ethical standards in terms of credit-granting, inclusive of regular communication with and reporting to the Regulator. Policies, processes and documents are also continuously revised to ensure sufficient alignment with the requirements of prevailing credit legislation.

- **Monitoring**
  Monitoring is regarded as a vital component of the compliance function and an extensive monitoring plan has been incorporated into the bank's system. In addition, the monitoring of legislation has been greatly enhanced as a direct result of the introduction of new compliance software. Four internal control officers, one each in the Durban and Cape regions and two in the Gauteng region, also assist with monitoring compliance of various elements of legislation. Independent monitoring of legislation is also conducted separately by the compliance division.

- **New legislation**
  Protection of Personal Information Act:
  The Protection of Personal Information Act, which has been signed into law, but which is not yet effective, has resulted in the establishment of a project team to drive its implementation within the bank.

- **Foreign Account Tax Compliance Act**
  The Foreign Account Tax Compliance Act (FATCA):
  This Act imposes a penal withholding tax on foreign entities which refuse to disclose the identities of US persons with offshore bank accounts and/or investments that commit tax evasion.

  The Al Baraka Banking Group in Bahrain has conducted an assessment of FATCA compliance within the group and each of its subsidiaries and relevant reports have been issued to each unit. The bank here, in South Africa, has formed a task force and steering committee to ensure compliance with FATCA.

- **Combined assurance**
  The compliance, risk and internal audit divisions have been putting together an effective bank-wide Combined Assurance Model. Once completed, this will greatly assist the bank in streamlining processes and further enhancing corporate governance.

- **Zero tolerance**
  The bank applies a zero tolerance approach with regard to non-compliance and prides itself on maintaining a healthy culture of compliance to laws, rules, standards and policies.

  Wherever possible, the requirement to comply is repeatedly emphasised with a view to ensuring full compliance with all relevant laws.

  The bank also employs a rigorous recruitment policy to ensure members of staff with the correct skill-sets and attributes, as well as qualifications, are secured for compliance-related positions. The bank's commitment to compliance remains resolute.

Shariah Report
For the year ended 31 December 2013

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 by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the resolutions issued by the Shariah Supervisory Board of the bank.

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 its review of the operations of Al Baraka Bank and report to you.

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;
- Foreign Exchange Transactions; and
- Review and Approval of Zakah Calculation.

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; and
5. Zakah of the bank was calculated at 34c 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 the success in this World and the Hereafter.

Dr Abdus Sattar Abu Ghudda
Chairman

Sheikh Mahomed Shoaib Omar
Member

Mufti Shafique Jakhura
Member

31 January 2014

Shariah Supervisory Board

Shariah Supervisory Board of Al Baraka Bank

The Shariah Supervisory Board is an independent body and comprises specialist jurists in Islamic commercial jurisprudence. It is entrusted with directing, reviewing and supervising the activities of Al Baraka Bank, in order to ensure 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-out 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 the 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 Albaraka Shariah funds

The partnered Old Mutual Albaraka 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.

Annual Financial Statements for the year ended 31 December 2013

NATURE OF BUSINESS	Islamic Financial Services
AUDITORS	Ernst & Young Inc.
REGISTERED OFFICE	2 Kingsmead Boulevard Kingsmead Office Park Stalwart Simelane Street Durban 4001 P O Box 4395 Durban 4000
PARENT AND ULTIMATE HOLDING COMPANY	Al Baraka Banking Group B.S.C.
REGISTRATION NUMBER	1989/003295/06
COUNTRY OF INCORPORATION	Republic of South Africa

CONTENTS

The financial statements of Albaraka Bank Limited have been audited in compliance with S30 of the Companies Act of South Africa. Abdullah Ameed, CA (SA), general manager: finance, of Albaraka Bank Limited, was responsible for the preparation of the financial statements.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The financial statements set out on pages 30 to 81 were approved by the Chairman and Chief Executive on 10 April 2014.

....	....
Adnan Ahmed Yousif Chairman	**Shabir Chohan** Chief executive

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 audit committee report, company secretary statement, directors' report, the statement of financial position as at 31 December 2013 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's 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 and company annual financial statements were approved by the board of directors on 10 April 2014 and signed on their behalf by:

Adnan Ahmed Yousif
Chairman

Shabir Chohan
Chief executive

Company secretary statement
In terms of the provisions of the Companies Act, I certify that Albaraka Bank Limited has lodged with the Commissioner of the Companies and Intellectual Property Commission all such returns and notices prescribed by the Companies Act, and that all such returns and notices are true, correct and up-to-date.

Colin Breeds
Company secretary
Durban
10 April 2014

Audit
Committee Report

During the financial year ended 31 December 2013, the committee convened five times to discharge both its statutory and board responsibilities. As an overview only, and not to be regarded as an exhaustive list, the committee carried out the following duties:

Annual financial statements
The committee has evaluated the annual financial statements. Amongst others, the committee:

1. Reviewed the principles, policies and accounting practices and standards adopted in preparation of the annual financial statements and commented thereon and monitored compliance with all statutory/legal/regulatory requirements; and
2. Reviewed interim reports and preliminary results announcements.

Since the annual financial statements complied, in all material aspects, with the principles, policies and accounting practices and standards adopted in preparation of the annual financial statements and with the appropriate International Financial Reporting Standards and as no complaints relating to the accounting practices or the contents or auditing of the financial statements, or to any related matter, were received by the committee, the committee has approved and recommended the annual financial statements for approval to the board. The board has subsequently approved the financial statements, which will be presented to shareholders at the annual general meeting to be held on 17 June 2014.

Internal audit function
The committee has played an oversight role in respect of the internal audit function, which is performed in-house to ensure its effectiveness. Amongst others, the committee:

1. Approved the internal audit mandate and ensured that internal audit is an effective risk-based function that adheres to the IIA Standards and Code of Ethics;
2. Ensured that the internal audit plan was risk-based and addressed specific risks of the company;
3. Approved the internal audit plan;
4. Ensured that the charter used by internal audit was approved by the board;
5. Reviewed the internal audit charter;
6. Regularly met separately with the internal audit manager; and
7. Did not receive any complaints relating to the internal audit of the company.

External audit and related matters
Ernst & Young Inc. are the company's appointed external auditors. The committee has played an oversight role in respect of the external audit process to ensure its effectiveness. Amongst others, the committee:

1. Approved Ernst & Young Inc.'s terms of engagement;
2. Reviewed the quality and effectiveness of the external audit process;
3. Reviewed the external auditor's report to the committee and management's responses thereto;
4. Reviewed significant judgements and/or unadjusted differences resulting from the audit, as well as any reporting decisions made;
5. Maintained a non-audit services policy which determines the nature and extent of any non-audit services that Ernst & Young Inc. may provide to the company/group;
6. Regularly met separately in confidence with Ernst & Young Inc.;
7. Through enquiry, ascertained that Ernst & Young Inc. has not identified any irregularity that required reporting thereof to IRBA; and
8. Evaluated and were satisfied with the independence of Ernst & Young Inc.

Risk management, assurance and ethics
The committee formed an integral component of the risk management framework and amongst others, monitored financial reporting risks, internal financial controls, fraud risks and IT risks as these relate to financial reporting. The committee played an oversight role in respect of risk, combined assurance and ethics.

....
MS Paruk
Chairman: audit committee

Independent Auditor's Report

To the shareholders of Albaraka Bank Limited

Report on the financial statements

We have audited the consolidated and separate financial statements of Albaraka Bank Limited set out on pages 34 to 81, which comprise the statements of financial position as at 31 December 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate 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 about whether the consolidated and separate 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, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Albaraka Bank Limited as at 31 December 2013, 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 the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2013, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Ernst + Young Inc.

Ernst & Young Inc.
Director – Ernest Van Rooyen
Registered Auditor
Chartered Accountant (SA)

10 April 2014
Durban

Directors' Report for the year ended 31 December 2013

The directors have pleasure in presenting their report for the year ended 31 December 2013.

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), Killarney (Johannesburg), Laudium (Pretoria), Lenasia (Johannesburg), Kingsmead (Durban), Overport (Durban), Port Elizabeth and corporate offices in Cape Town, Durban and Johannesburg.

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 P O Box 1882, Manama, Kingdom of Bahrain.

Share capital
The authorised share capital of the company comprises 30,0 million (2012: 30,0 million) ordinary shares of R10 each amounting to R300,0 million (2012: R300,0 million). The issued share capital of the company comprises 22,5 million (2012: 22,5 million) ordinary shares of R10 each amounting to R225,0 million (2012: R225,0 million).

Financial results
The results of the group and the company for the year ended 31 December 2013 are set out on pages 34 to 81.

Dividends
On 15 March 2013 the directors declared a dividend of 45 cents (2012: 45 cents) per share amounting to R10,13 million (2012: R10,13 million) paid to shareholders registered as at the close of business on 18 October 2013.

Group structure
Albaraka Properties Proprietary Limited is a wholly-owned subsidiary of Albaraka Bank Limited. There were no changes to the group structure for the 2013 financial year.

Capital management
In relation to the requirements of the Banks Act and Regulations, the bank has been granted condonation by the South African Reserve Bank in regard to its capital management. The bank is in the process of procuring additional capital to maintain its capital adequacy as it continues to grow. It is expected that within the 2014 year, the capital adequacy position will be restored to acceptable levels that will ensure that such condonation is no longer required.

Events after the reporting period
There are no material events after the financial period that require reporting.

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

Non-executive
AA Yousif, Chairman, Bahraini

Independent non-executive
SA Randeree, Vice chairman, British
F Kassim, Sri Lankan
A Lambat, CA (SA)
Adv. AB Mahomed SC
MG McLean*
MS Paruk, CA (SA)
YM Paruk
M Youssef Baker, Egyptian

Executive
SAE Chohan, CA (SA), Chief executive
MJD Courtiade, CA (SA), Chief operating officer, French**

* Independent from 03 March 2014

** Effective from 01 October 2013

Secretary
The secretary of the company is CT Breeds whose business, postal and registered addresses are as follows:

Business address
2 Kingsmead Boulevard
Kingsmead Office Park
Stalwart Simelane Street
Durban
4001

Postal address
P O Box 4395
Durban
4000

Registered address
2 Kingsmead Boulevard
Kingsmead Office Park
Stalwart Simelane Street
Durban
4001

Statement of Financial Position as at 31 December 2013

	Notes	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Assets					
Property and equipment	3	**97 811**	98 655	**67 934**	73 008
Investment properties	4	**10 476**	10 552	**-**	-
Intangible assets	5	**18 296**	19 570	**18 296**	19 570
Investment in and amount due by subsidiary company	6	**-**	-	**15 294**	22 903
Deferred tax asset	7	**375**	2 222	**15 815**	13 616
Investment securities	8	**9 906**	8 719	**9 906**	8 719
Advances and other receivables	9	**3 752 994**	3 269 322	**3 752 833**	3 269 133
South African Revenue Service	10	**1 825**	649	**1 825**	671
Cash and cash equivalents	11	**519 128**	306 552	**519 128**	306 552
Total assets		**4 410 811**	3 716 241	**4 401 031**	3 714 172
Equity and liabilities					
Equity					
Share capital	12	**225 000**	225 000	**225 000**	225 000
Share premium	12	**29 866**	29 866	**29 866**	29 866
Retained income		**125 734**	106 912	**116 184**	106 011
Shareholders' interests		**380 600**	361 778	**371 050**	360 877
Liabilities					
Welfare and charitable funds	13	**2 297**	4 418	**2 297**	4 418
Accounts payable	14	**31 312**	23 199	**31 184**	22 104
South African Revenue Service payable	15	**292**	231	**190**	158
Provision for leave pay	16	**5 669**	5 111	**5 669**	5 111
Deposits from customers	17	**3 940 636**	3 321 504	**3 940 636**	3 321 504
Shareholders mudaraba advance	18	**50 005**	-	**50 005**	-
Total liabilities		**4 030 211**	3 354 463	**4 029 981**	3 353 295
Total equity and liabilities		**4 410 811**	3 716 241	**4 401 031**	3 714 172

Statement of Comprehensive Income for the year ended 31 December 2013

		Group		Company	
	Notes	**2013**	2012	**2013**	2012
		R'000	R'000	**R'000**	R'000
Income earned from advances		**262 131**	240 181	**262 131**	240 181
Income earned from equity finance		**29 249**	23 060	**29 249**	23 060
Gross income earned		**291 380**	263 241	**291 380**	263 241
Income paid to depositors	19	**(153 209)**	(139 175)	**(153 209)**	(139 175)
Net income before impairment for credit losses		**138 171**	124 066	**138 171**	124 066
Impairment for credit losses	9.3.3	**(2 400)**	(3 850)	**(2 400)**	(3 850)
Net income after impairment for credit losses		**135 771**	120 216	**135 771**	120 216
Net non-Islamic income	20	**-**	-	**-**	-
Fee and commission income	21	**28 044**	21 385	**28 244**	21 585
Other operating income	22	**4 317**	4 156	**5 558**	21 437
Net income from operations		**168 132**	145 757	**169 573**	163 238
Operating expenditure	23	**(127 685)**	(111 363)	**(131 884)**	(114 927)
Finance costs		**-**	-	**(9 937)**	(9 737)
Profit before taxation		**40 447**	34 394	**27 752**	38 574
Taxation	24	**(11 500)**	(9 139)	**(7 454)**	(3 481)
Total comprehensive income for the year, net of tax, attributable to equity holders		**28 947**	25 255	**20 298**	35 093
Weighted average number of shares in issue ('000)		**22 500**	22 500		
Earnings per share (cents)	25	**128,7**	112,2		

Statement of Changes in Shareholders' Equity for the year ended 31 December 2013

	Share capital	Share premium	Retained income	Shareholders' interest
	R'000	R'000	R'000	R'000
Group				
2013				
Balance at beginning of year	**225 000**	**29 866**	**106 912**	**361 778**
Total comprehensive income			**28 947**	**28 947**
Dividends paid			**(10 125)**	**(10 125)**
Balance at end of year	**225 000**	**29 866**	**125 734**	**380 600**
2012				
Balance at beginning of year	225 000	29 866	91 782	346 648
Total comprehensive income			25 255	25 255
Dividends paid			(10 125)	(10 125)
Balance at end of year	225 000	29 866	106 912	361 778
Company				
2013				
Balance at beginning of year	**225 000**	**29 866**	**106 011**	**360 877**
Total comprehensive income			**20 298**	**20 298**
Dividends paid			**(10 125)**	**(10 125)**
Balance at end of year	**225 000**	**29 866**	**116 184**	**371 050**
2012				
Balance at beginning of year	225 000	29 866	81 043	335 909
Total comprehensive income			35 093	35 093
Dividends paid			(10 125)	(10 125)
Balance at end of year	225 000	29 866	106 011	360 877

Statement of Cash Flows for the year ended 31 December 2013

	Notes	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Cash flow from operating activities					
Cash generated from operations	27.1	**44 842**	37 316	**34 278**	27 576
Changes in working capital	27.2	**137 517**	16 099	**138 472**	15 675
Taxation paid	27.3	**(11 978)**	(8 027)	**(11 978)**	(8 027)
Dividends paid	27.4	**(2 158)**	(10 125)	**(2 158)**	(10 125)
Increase in South African Revenue Service liability		**-**	-	**-**	-
Net cash inflow from operating activities		**168 223**	35 263	**158 614**	25 099
Cash flow from investing activities					
Purchase of property and equipment	27.5	**(4 095)**	(6 060)	**(4 095)**	(6 060)
Purchase of investment properties	27.6	**-**	(22)	**-**	-
Purchase of intangible assets	27.7	**(1 846)**	(265)	**(1 846)**	(265)
Purchase of investment securities		**(78)**	(77)	**(78)**	(77)
Proceeds from disposal of property and equipment		**14**	4	**14**	4
Dividend income		**353**	317	**2 353**	18 317
Decrease/(increase) in investment in and amount due by subsidiary		**-**	-	**7 609**	(7 858)
Net cash (utilised)/generated in investing activities		**(5 652)**	(6 103)	**3 957**	4 061
Cash flow from financing activities					
Proceeds from shareholders mudaraba advance		**50 005**	-	**50 005**	-
Net cash from financing activities		**50 005**	-	**50 005**	-
Net increase for the year		**212 576**	29 160	**212 576**	29 160
Cash and cash equivalents at beginning of year		**306 552**	277 392	**306 552**	277 392
Cash and cash equivalents at end of year	11	**519 128**	306 552	**519 128**	306 552

Accounting Policies for the year ended 31 December 2013

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 2013 comprise the company and its subsidiary (together referred to as the "group"). The accounting policies below are applicable to both the company and group financial statements, unless otherwise stated.

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 fair-value-through-profit-or-loss 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 significant estimates and judgements

The preparation of the group and company 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 company 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.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. In determining the extent to which the deferred tax assets may be recognised, management considers factors such as the likely period of future operations, estimated profits which are adjusted for exceptional items and estimated taxable profits based on the applicable legislation as well as future tax planning strategies.

In determining the useful lives of property and equipment, management has exercised judgement as further detailed in accounting policy note 4, property and equipment.

The impairment on advances comprises a specific impairment and portfolio 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.

Where the expected payment is inadequate, the bank factors in the realisation of tangible collateral on hand to settle the exposure. The difference between the realisation value and the value of the exposure may result in a 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 past ten 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 and consequently the portfolio impairment. Another factor that is considered during this process and which requires management judgement applies to the weighting of security cover per product type.

3. Basis of consolidation

Investment in subsidiary

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary.

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

Transactions eliminated on consolidation
All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

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, motor vehicles, buildings, tank containers, computer software and hardware and leasehold improvements are depreciated on a straight line basis.

The re-assessed estimated useful lives are as follows:

Buildings – Owned	50 years
Buildings – Leased	15 years
Tank containers	20 years
Equipment	4 - 26 years
Vehicles	7 - 10 years
Computer hardware	2 - 18 years
Leasehold improvements	4 - 24 years

The assets' depreciation methods, residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date. Management has exercised judgement in determining useful lives and residual values of each category of property and equipment as required by International Accounting Standard (IAS) 16 - Property, plant and equipment. These judgements have been based on historical trends and 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.

Accounting Policies for the year ended 31 December 2013 (continued)

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.

Available-for-sale financial assets
Available–for–sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held–for–trading nor designated at fair value through profit or loss. The group's investment in available-for-sale financial assets are stated at cost due to the unavailability of observable market data that is required to measure these investments at fair value.

Fair value through profit or loss financial instruments
Financial assets and financial liabilities classified in this category are those that have been designated as such by management on initial recognition. Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 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 fair-value-through-profit-or-loss financial instruments or available-for-sale financial instruments. Dividend income is recognised in profit or loss when the group becomes entitled to the dividend.

Fair value measurement
The group measures financial instruments, such as derivatives and non-financial assets, such as investment properties, at fair value at each reporting date in terms of IFRS 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability accessible to the group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. See note 30.8: Fair value hierarchy for further disclosure regarding the three applicable levels.

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 recognised as off-balance sheet items which are measured at fair value upon initial recognition and are not re-measured subsequently.

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 accounting policy 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 movements in 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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 a 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. Rental income is recognised in profit or loss on a straight line basis over the lease term for properties.

Accounting Policies for the year ended 31 December 2013 (continued)

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 net of tax. 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.

Group and company 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 profit for the year 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 carried at cost less accumulated depreciation and accumulated impairment losses.

Investment properties are derecognised when 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 transfer is recorded at the carrying value of the property. 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.

The fair value of investment properties is assessed in line with its ability to be disposed of in an active market accessible to the group. This is assessed by the use of independent valuations. Consideration is also given to the highest and best use of investment properties.

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 indefinite. 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;
- It's intention to complete and it's 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 – 7 years
Capitalised project costs	5 -10 years

Computer software comprises acquired third party software and capitalised project costs represent internal costs of development. Capital work in progress refers to items still in the process of development and not currently available for use.

16. Employee benefits
Defined contribution plan
Obligations for contribution to defined contribution pension plans are recognised as an expense 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, where relevant, 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 related party is a person or entity that is related to the group.
A person or a close member of that person's family is related to the group if that person:
- Has control or joint control over the group;
- Has significant influence over the group; or
- Is a member of the key management personnel of the group or of a subsidiary of the group.

An entity is related to the group if any of the following conditions apply:
- The entity and the group are members of the same company;
- One entity is an associate or joint venture of the other entity;
- Both entities are joint ventures of the same third party;
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- The entity is a post-employment defined benefit plan for the benefit of employees of either the group or an entity related to the group. If the group is itself such a plan, the sponsoring employers are also related to the group;
- The entity is controlled or jointly controlled by a person identified above;
- A person identified above has significant influence over the entity or is a member of the key management personnel of the entity; and
- The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the subsidiaries of the group.

The following are deemed not to be related:
- Two entities simply because they have a director or key manager in common;
- Two venturers who share joint control over a joint venture;
- Providers of finance, trade unions, public utilities, and departments and agencies of a government that does not control, jointly control or significantly influence the group, simply by virtue of their normal dealings with the group (even though they may affect the freedom of action of the group or participate in its decision-making process); and
- A single customer, supplier, franchiser, distributor, or general agent with whom the group transacts a significant volume of business merely by virtue of the resulting economic dependence.

Notes to the Financial Statements for the year ended 31 December 2013

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 III 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.

Capital structure
The capital base of the bank provides the foundation for financing, off-balance sheet transactions and other activities. The capital adequacy of the bank is measured in terms of the Banks Act, which dictates the requirements on how the bank must maintain a minimum level of capital based on its risk adjusted assets and off-balance sheet exposures as determined by the provisions of Basel III. The capital structure of the bank is as follows:

	2013	2012
	R'000	R'000
Regulatory capital		
Tier 1		
Share capital	**225 000**	225 000
Share premium	**29 866**	29 866
Retained income	**116 185**	106 011
Less: unappropriated profits	**(1 986)**	(8 322)
Total capital & reserves	**369 065**	352 555
Less: prescribed deductions against capital and reserve funds	**(18 296)**	(19 570)
Total Tier 1 capital	**350 769**	332 985
Tier 2		
Portfolio impairment	**11 691**	7 779
Total eligible capital	**362 460**	340 764
Capital adequacy ratios (Tier 1 %)	**11,49%**	12,16%
Capital adequacy ratios (Total %)	**11,88%**	12,44%
Minimum regulatory requirement ratios (Total %)	**9,50%**	9,50%

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 2013, the minimum capital requirements and risk-weighted assets of the bank for credit risk, equity risk, market risk and other risks as calculated under the standardised approach and for operational risk as calculated under the basic indicator approach in terms of the Banks Act and Regulations were as follows:

	Capital requirements		Risk-weighted assets	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
Credit risk	**254 253**	227 834	**2 676 347**	2 398 252
Operational risk	**24 449**	20 697	**257 364**	217 866
Equity risk	**-**	-	**-**	-
Market risk	**446**	177	**4 696**	1 860
Other risk	**10 775**	11 520	**113 419**	121 258
	289 923	260 228	**3 051 826**	2 739 236

In relation to the requirements of the Banks Act and Regulations, the bank has been granted condonation by the South African Reserve Bank in regard to its capital management. The bank is in the process of procuring additional capital to maintain its capital adequacy as it continues to grow. It is expected that within the 2014 year the capital adequacy position will be restored to acceptable levels that will ensure that such condonation is no longer required.

2. Risk management and assessment

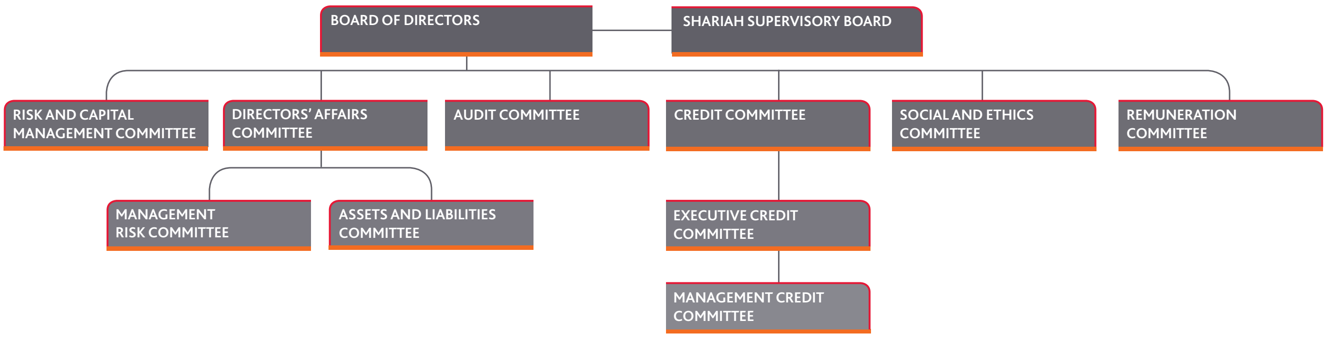
Whilst the board is ultimately responsible for risk management and to determine the type and level of risk which the bank is willing to accept in conducting its banking activities, the effective management of risk has been delegated to five board committees, namely, the risk and capital management committee, the audit committee, the credit committee, the directors' affairs committee and the social and ethics 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 orientated.

Notes to the Financial Statements for the year ended 31 December 2013

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 counter-parties and by product; and
- Developing and maintaining risk gradings in order to categorise exposures to the degree of risk of financial loss faced and to focus management on the relevant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework is described under the section dealing with portfolio measures of risk.

Credit exposures are monitored primarily on performance. Defaulting accounts receive prompt attention. Initially they are dealt with by line management and, in instances where further degeneration occurs, they are handed over to the bank's collections and legal specialists.

Depending on the type of credit exposure, account reviews, which include the re-performance of qualitative and quantitative assessments, are performed annually.

The credit risk management process needs to identify all risk factors to enable such risks to be quantified and their impact on the pricing or credit risk to be taken into account. Pricing for credit risk is, therefore, a critical component of the risk management process. The main risk of default by the counter-party is mitigated by means of collateral security obtained from the debtor concerned.

For internal risk management and risk control purposes, credit risk is measured in terms of potential loss that could be suffered, taking into account the quantum of the exposures, the realisable value of the collateral security and the value, if any, that could be placed on the sureties.

The executive and board credit committees constantly monitor the credit quality of counter-parties and the exposure to them. Detailed risk reports are submitted to the aforementioned committees and also to the management credit committee on a regular basis.

Portfolio measures of credit risk

Credit loss expense is reported in accordance with International Accounting Standard (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;
- 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; and
- 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.

Notes to the Financial Statements for the year ended 31 December 2013

	Group and Company	
	2013	2012
	R'000	R'000
2. Risk management and assessment (continued)		
2.1 Credit risk (continued)		
Credit exposures		
Advances to customers	**3 094 498**	2 735 213
Advances and balances with banks	**720 267**	598 088
Advances, treasury bills and balances with central bank	**467 941**	253 398
Letters of credit, guarantees and confirmations	**196 528**	143 670
Total exposure	**4 479 234**	3 730 369
Impairment of advances	**(18 828)**	(16 509)
Net exposure	**4 460 406**	3 713 860

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

Geographical distribution of exposures		
Customer exposure		
KwaZulu-Natal	**1 678 883**	1 493 802
Gauteng	**1 108 265**	955 099
Western Cape	**503 878**	429 982
Total customer exposure	**3 291 026**	2 878 883
Bank exposure		
KwaZulu-Natal	**11 698**	14 158
Gauteng	**1 175 104**	836 432
United States of America	**1 406**	896
Total bank exposure	**1 188 208**	851 486
Total exposure	**4 479 234**	3 730 369
Industry distribution of exposures		
Banks and financial institutions	**1 188 208**	851 486
Individuals	**1 027 524**	865 570
Other services	**2 263 502**	2 013 313
Total exposure	**4 479 234**	3 730 369

		Group and Company	
		2013	2012
		R'000	R'000
Product distribution analysis			
Property (musharaka and murabaha)		**2 164 735**	1 929 112
Equity finance		**674 688**	548 088
Instalment sales		**453 057**	410 003
Trade		**475 953**	395 235
Balances with local and central banks		**513 520**	303 398
Letters of credit		**4 810**	152
Guarantees and confirmations		**191 718**	143 518
Other		**753**	863
Total exposure		**4 479 234**	3 730 369

Residual contractual maturity of book			
Within 1 month	- equity finance	**574 184**	271 961
	- other	**699 276**	407 398
From 1 to 3 months	- equity finance	**100 504**	276 127
	- other	**351 033**	345 395
From 3 months to 1 year		**472 651**	416 729
From 1 year to 5 years		**1 167 981**	1 071 415
More than 5 years		**1 113 605**	941 344
Total exposure		**4 479 234**	3 730 369

Notes to the Financial Statements for the year ended 31 December 2013

	Group and Company							
	Advances to customers		Advances and balances with banks		Other exposures		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
2. Risk management and assessment (continued)								
2.1 Credit risk (continued)								
Past due and individually impaired								
Standard category	**-**	-	**-**	-	**-**	-	**-**	-
Special mention category	**-**	-	**-**	-	**-**	-	**-**	-
Sub-standard category	**4 678**	12 559	**-**	-	**-**	-	**4 678**	12 559
Doubtful category	**11 214**	4 262	**-**	-	**-**	-	**11 214**	4 262
Loss category	**23 336**	13 564	**-**	-	**-**	-	**23 336**	13 564
Gross amount	**39 228**	30 385	**-**	-	**-**	-	**39 228**	30 385
Specific impairment	**(7 137)**	(5 705)	**-**	-	**-**	-	**(7 137)**	(5 705)
Carrying amount	**32 091**	24 680	**-**	-	**-**	-	**32 091**	24 680
Past due but not impaired								
Standard category	**996 985**	536 495	**-**	-	**-**	-	**996 985**	536 495
Special mention category	**110 319**	177 272	**-**	-	**-**	-	**110 319**	177 272
Sub-standard category	**15 107**	8 686	**-**	-	**-**	-	**15 107**	8 686
Doubtful category	**13 351**	2 047	**-**	-	**-**	-	**13 351**	2 047
Loss category	**9 134**	16 258	**-**	-	**-**	-	**9 134**	16 258
Carrying amount	**1 144 896**	740 758	**-**	-	**-**	-	**1 144 896**	740 758
Neither past due nor impaired								
Standard category	**1 910 374**	1 964 070	**1 188 208**	851 486	**196 528**	143 670	**3 295 110**	2 959 226
Carrying amount	**1 910 374**	1 964 070	**1 188 208**	851 486	**196 528**	143 670	**3 295 110**	2 959 226
Total carrying amount before portfolio impairment	**3 087 361**	2 729 508	**1 188 208**	851 486	**196 528**	143 670	**4 472 097**	3 724 664
Portfolio impairment - Standard category	**(11 691)**	(10 804)	**-**	-	**-**	-	**(11 691)**	(10 804)
Net carrying amount	**3 075 670**	2 718 704	**1 188 208**	851 486	**196 528**	143 670	**4 460 406**	3 713 860

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. Financial assets classified as neither past due nor impaired are well diversified with 62% invested in property transactions, 15% in instalment sale transactions (equipment and motor vehicle) and 23% in trade finance transactions. All of the above exposures are collateralised in the form of property, assets, personal sureties and company guarantees. The maximum exposure to credit risk is calculated as being the maximum amount payable by customers, banks and other financial institutions (refer to note 30).

	Group and Company	
	Credit Exposure	Collateral cover
	2013	2013
	R'000	R'000
Collateral is held specifically in respect of advances and these predominantly comprise mortgage bonds over fixed property, notarial bonds over moveable property, cessions over cash deposits, insurance policies, book debts and unit trusts, as well as personal sureties and company guarantees.		
Collateral is allocated per asset class as follows:		
Standard asset	2 722 438	1 936 501
Special mention asset	290 522	235 696
Sub-standard asset	20 850	17 587
Doubtful asset	25 981	20 816
Loss asset	34 707	20 454
	3 094 498	2 231 054

	Group and Company	
	2013	2012
	R'000	R'000
A distribution analysis of past due advances, impaired and past due and not impaired, is disclosed below:		
Past due and individually impaired		
- Individuals	15 168	16 691
- Other customers	24 060	13 694
	39 228	30 385
Past due but not impaired		
- Individuals	462 190	246 266
- Other customers	682 707	494 493
	1 144 897	740 759

Notes to the Financial Statements for the year ended 31 December 2013

2. Risk management and assessment (continued)

2.1 Credit risk (continued)

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

	Group and Company									
	Less than 30 days		30 to 60 days		60 to 180 days		Greater than 180 days		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
Individuals	**361 206**	207 972	**68 467**	27 739	**21 342**	4 312	**11 175**	6 243	**462 190**	246 266
Other customers	**579 071**	426 781	**85 944**	47 503	**14 235**	11 626	**3 457**	8 582	**682 707**	494 492
	940 277	634 753	**154 411**	75 242	**35 577**	15 938	**14 632**	14 825	**1 144 897**	740 758

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 and foreign currency, held in terms of its foreign exchange licence.

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

		Group and Company	
		2013	2012
		R'000	R'000
Assets held under interest rate risk	- Treasury bills	**73 711**	64 656
Assets held under exchange rate risk	- Foreign currency held	**4 696**	1 860
		78 407	66 516

In accordance with Islamic banking principles, the bank does not levy interest on finance provided, hence is not exposed to interest rate risk but rather profit rate risk as described in note 2.5. The treasury bills disclosed above are held for statutory liquidity requirements and thus interest earned on these bills are included in the amounts donated as per note 13.

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 in the case of Al Baraka Bank, relates 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 Proprietary 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. The bank also has an investment in unit trusts which is classified as fair-value-through-profit-and-loss and is subject to regular monitoring by management and the board, but is not currently significant in relation to the overall results and financial position of the group.

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

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 regards 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 instances of 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 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
3. Property and Equipment				
Cost				
Land and buildings	**76 237**	76 237	**63 444**	63 444
Vehicles	**3 531**	3 085	**3 531**	3 085
Equipment and computers	**25 803**	24 151	**25 803**	24 151
Leasehold improvements	**10 839**	10 511	**11 379**	11 050
Tank containers	**7 145**	7 145	**7 145**	7 145
Capital work in progress	**1 559**	1 034	**1 559**	1 034
	125 114	122 163	**112 861**	109 909
Accumulated depreciation and impairment	**(27 303)**	(23 508)	**(44 927)**	(36 901)
Land and buildings	**-**	-	**(17 624)**	(13 393)
Vehicles	**(2 180)**	(1 695)	**(2 180)**	(1 695)
Equipment and computers	**(14 204)**	(12 074)	**(14 204)**	(12 074)
Leasehold improvements	**(6 024)**	(5 151)	**(6 024)**	(5 151)
Tank containers	**(4 895)**	(4 588)	**(4 895)**	(4 588)
Carrying amount	**97 811**	98 655	**67 934**	73 008
Land and buildings comprise the following commercial properties presented at their carrying amount 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 in 2010. 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 carrying amount.	**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 R100,4 million in 2012. Commercial property comprises land at a cost of R3,5 million (2012: R3,5 million) and buildings thereon at a cost of R69,1 million (2012: R69,1 million).	**72 582**	72 582		
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 R72,0 million (2012: R72,0 million) and calculating a rate intrinsic in the lease 14,3% (2012: 14,3%).			**45 821**	50 051
	76 237	76 237	**45 821**	50 051

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Carrying amount at beginning of year	**76 237**	76 237	**50 051**	54 280
Additions	**-**	-	**-**	-
Depreciation	**-**	-	**(4 230)**	(4 229)
Carrying amount at end of year	**76 237**	76 237	**45 821**	50 051

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

	Land and buildings R'000	Vehicles R'000	Equipment and computers R'000	Leasehold improvements R'000	Tank containers R'000	Capital work in progress R'000	Total R'000
Movement in property and equipment							
Group							
2013							
Net carrying amount at beginning of year	**76 237**	**1 390**	**12 077**	**5 360**	**2 557**	**1 034**	**98 655**
Additions	**-**	**446**	**1 531**	**28**	**-**	**2 090**	**4 095**
Transfers	**-**	**-**	**1 289**	**301**	**-**	**(1 565)**	**25**
Disposals	**-**	**-**	**(19)**	**-**	**-**	**-**	**(19)**
Assets written-off	**-**	**-**	**(80)**	**-**	**-**	**-**	**(80)**
Depreciation for the year	**-**	**(485)**	**(3 200)**	**(873)**	**(307)**	**-**	**(4 865)**
Net carrying amount at end of year	**76 237**	**1 351**	**11 598**	**4 816**	**2 250**	**1 559**	**97 811**
2012							
Net carrying amount at beginning of year	76 237	1 524	13 316	4 157	2 864	2 337	100 435
Additions	-	178	1 885	474	-	3 951	6 488
Transfers	-	-	(558)	1 477	-	(5 254)	(4 335)
Disposals	-	-	(21)	-	-	-	(21)
Assets written-off	-	-	(280)	-	-	-	(280)
Depreciation for the year	-	(312)	(2 265)	(748)	(307)	-	(3 632)
Net carrying amount at end of year	76 237	1 390	12 077	5 360	2 557	1 034	98 655

Notes to the Financial Statements for the year ended 31 December 2013

	Land and buildings R'000	Vehicles R'000	Equipment and computers R'000	Leasehold improvements R'000	Tank containers R'000	Capital work in progress R'000	Total R'000
3. Property and Equipment (continued)							
Movement in property and equipment (continued)							
Company							
2013							
Net carrying amount at beginning of year	**50 051**	**1 390**	**12 077**	**5 899**	**2 557**	**1 034**	**73 008**
Additions	**-**	**446**	**1 531**	**28**	**-**	**2 090**	**4 095**
Transfers	**-**	**-**	**1 289**	**301**	**-**	**(1 565)**	**25**
Disposals	**-**	**-**	**(19)**	**-**	**-**	**-**	**(19)**
Assets written-off	**-**	**-**	**(80)**	**-**	**-**	**-**	**(80)**
Depreciation for the year	**(4 230)**	**(485)**	**(3 200)**	**(873)**	**(307)**	**-**	**(9 095)**
Net carrying amount at end of year	**45 821**	**1 351**	**11 598**	**5 355**	**2 250**	**1 559**	**67 934**
2012							
Net carrying amount at beginning of year	54 280	1 524	13 316	4 696	2 864	2 337	79 017
Additions	-	178	1 885	474	-	3 951	6 488
Transfers	-	-	(558)	1 477	-	(5 254)	(4 335)
Disposals	-	-	(21)	-	-	-	(21)
Assets written-off	-	-	(280)	-	-	-	(280)
Depreciation for the year	(4 229)	(312)	(2 265)	(748)	(307)	-	(7 861)
Net carrying amount at end of year	50 051	1 390	12 077	5 899	2 557	1 034	73 008

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
4. Investment properties				
Balance at beginning of year	**10 552**	10 682		
Additions	**-**	22		
Depreciation	**(76)**	(152)		
Balance at end of year	**10 476**	10 552		

Investment properties are only applicable at a group level and comprise the following land as described below:

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 were considered to be equal to their fair value at the time of acquisition. The investment property was independently valued at R11,0 million as at 05 January 2012 which is in line with the group revaluation policy of three years. At the end of the 2011 financial period, capital expenditure was incurred to facilitate the generation of future income by the property. These costs were brought into use during the 2012 financial period, resulting in the depreciation charge depicted on the previous page. Accumulated depreciation at the end of the year amounted to R228 000 (2012: R152 000). The independent valuation referred to, conducted two years ago, provides an indication of the fair value of this property and with no significant changes in the property market in the two years it would be appropriate to consider the value still applicable at this financial year-end. The inputs into the valuation, as applied by the independent valuator, were location, surrounding environment and improvements applied. The valuator further considered sales of comparable properties in proximity to the investment property. As investment property is classified as a non-financial asset, management has considered its highest and best use and with no current intention to alter the use of this investment property, have accordingly concluded not to adjust its fair value from that of the independent valuation referred to above.

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
5. Intangible assets				
Cost				
Computer software	**2 318**	1 801	**2 318**	1 801
Capitalised project costs	**27 716**	24 730	**27 716**	24 730
Capital work in progress	**640**	2 484	**640**	2 484
	30 674	29 015	**30 674**	29 015
Accumulated amortisation and impairment	**(12 378)**	(9 445)	**(12 378)**	(9 445)
Computer software	**(1 093)**	(779)	**(1 093)**	(779)
Capitalised project costs	**(11 285)**	(8 666)	**(11 285)**	(8 666)
	18 296	19 570	**18 296**	19 570

	Computer software	Capitalised project costs	Capital work in progress	Total
	R'000	R'000	R'000	R'000
Movement in intangible assets				

Group and company

2013				
Net carrying amount at beginning of year	**1 022**	**16 064**	**2 484**	**19 570**
Additions	**595**	**194**	**1 057**	**1 846**
Transfers	**(32)**	**2 908**	**(2 901)**	**(25)**
Disposal	**(47)**	**-**	**-**	**(47)**
Assets written off	**-**	**(18)**	**-**	**(18)**
Amortisation for the year	**(314)**	**(2 716)**	**-**	**(3 030)**
Net carrying amount at end of year	**1 224**	**16 432**	**640**	**18 296**

Notes to the Financial Statements for the year ended 31 December 2013

	Computer software R'000	Capitalised project costs R'000	Capital work in progress R'000	Total R'000
5. Intangible assets (continued)				
Movement in intangible assets (continued)				
Group and company				
2012				
Net carrying amount at beginning of year	632	18 375	-	19 007
Additions	663	93	-	756
Transfers	(54)	1 107	2 484	3 537
Assets written off	(29)	(321)	-	(350)
Amortisation for the year	(190)	(3 190)	-	(3 380)
Net carrying amount at end of year	1 022	16 064	2 484	19 570

	Company 2013 R'000	Company 2012 R'000
6. Investment in and amount due by subsidiary company		
Albaraka Properties Proprietary Limited is 100% (2012: 100%) owned by Albaraka Bank Limited.		
The issued share capital of Albaraka Properties Proprietary Limited comprises 100 shares of R1 each (2012: 100 shares of R1 each).		
Shares at cost	*	*
Due by subsidiary	**15 294**	22 903
- Amounts owing by subsidiary	**86 209**	92 609
- Finance lease liability (note 31.3)	**(70 915)**	(69 706)
	15 294	22 903

* Amount less than R1 000.

The amount due by the subsidiary is profit-free. For the purposes of classification of financial instruments this is considered to be advances and receivables. The difference between the amounts owing by the subsidiary and the finance lease liability above, is a result of the present value of the lease liability which will unwind over the period of the lease.

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.

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
7. Deferred tax asset				
Balance at beginning of year	**2 222**	3 019	**13 616**	8 755
Tax income/(expense) recognised in profit or loss	**(995)**	(2 864)	**3 051**	1 005
Recognition/(derecognition) of temporary differences arising on finance lease	**-**	-	**-**	3 856
Reversal of impairment/(impairment) of accumulated tax credits in subsidiary	**-**	2 067	**-**	-
Deferred tax – prior year over-provision recognised in profit or loss	**(852)**	-	**(852)**	-
Balance at end of year	**375**	2 222	**15 815**	13 616
The deferred tax asset comprises the following:				
Temporary differences arising on finance lease	**-**	-	**7 026**	1 647
Recognition/(derecognition) of temporary differences arising on finance lease	**-**	-	**-**	3 856
Deferred tax on accumulated tax credits in subsidiary	**1 333**	2 458	**-**	-
Temporary differences on financial assets	**(553)**	(243)	**(553)**	(243)
Impairment for doubtful advances	**1 499**	1 198	**1 499**	1 198
Other provisions	**14 056**	11 665	**14 071**	11 684
Prepaid expenses	**(162)**	(139)	**(155)**	(133)
Intangible assets, plant and equipment	**(15 798)**	(12 717)	**(6 073)**	(4 393)
	375	2 222	**15 815**	13 616

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.

The temporary differences that arose on the finance lease between the bank and its subsidiary were derecognised in the 2011 period due to the then intended dissolution of Albaraka Properties Proprietary Limited. These temporary differences were recognised in the 2012 year as Albaraka Properties Proprietary Limited returned to a going concern status and was therefore expected to generate sufficient future taxable profit to realise the deferred tax asset.

Further to this, the deferred tax asset created by the accumulated tax credits in the bank's subsidiary, which was impaired by the group in the 2011 year, was recognised in the 2012 year to the extent that it was probable that the asset would be recovered through future taxable profits.

8. Investment securities				
Unit trust investments				
Fair value at beginning of year	**6 119**	4 976	**6 119**	4 976
Additions at cost	**78**	77	**78**	77
Fair value gains	**1 109**	1 066	**1 109**	1 066
Fair value at end of year	**7 306**	6 119	**7 306**	6 119
Unlisted investments				
Kiliminjaro Investment Proprietary Limited, at cost	**2 600**	2 600	**2 600**	2 600
	9 906	8 719	**9 906**	8 719

Notes to the Financial Statements for the year ended 31 December 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000

8. Investment securities (continued)

The bank's investment in unit trusts comprise 420 275 units (2012: 415 053 units) in the Old Mutual Albaraka Equity Fund. The cost of this investment is R7,3 million (2012: R5,3 million) and has been designated as a fair-value-through-profit-or-loss financial instrument on initial recognition. The investment is treated in this manner in order to eliminate any potential recognition inconsistencies that may arise on changes in the fair value of this instrument, had the instrument been classified on an alternate basis. The fair value of this investment is determined by quoted market prices and changes in fair value are recorded in profit or loss for the year.

Kiliminjaro Investment Proprietary Limited is a property owning company of which the bank owns 9,4% (2012: 9,4%).The investment is classified as an available-for-sale financial instrument which is measured at cost, due to the fair value being indeterminable as there is no active market for unlisted shares of this nature. Based on the net asset value of the investment company, as at 28 February 2013, the value is R2,8 million (2012: R2,8 million) hence the cost is considered to be the appropriate measurement for this investment.

9. Advances and other receivables

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
9.1 Sectoral analysis				
Advances to customers				
Property (musharaka and murabaha)	**2 164 735**	1 929 112	**2 164 735**	1 929 112
Instalment sale	**453 057**	410 003	**453 057**	410 003
Trade	**475 953**	395 235	**475 953**	395 235
Other	**753**	863	**753**	863
Gross advances to customers	**3 094 498**	2 735 213	**3 094 498**	2 735 213
Provision for impairment of doubtful advances	**(18 828)**	(16 509)	**(18 828)**	(16 509)
Net advances to customers after provisions	**3 075 670**	2 718 704	**3 075 670**	2 718 704
Advances to banks				
Equity finance	**674 688**	548 088	**674 688**	548 088
Net advances	**3 750 358**	3 266 792	**3 750 358**	3 266 792
Other receivables	**2 636**	2 530	**2 475**	2 341
	3 752 994	3 269 322	**3 752 833**	3 269 133

Included under property are musharaka advances amounting to R2 128,6 million (2012: R1 873,1 million)

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
9.2 Maturity analysis				
Advances to customers				
Within 1 month	**277 817**	201 206	**277 817**	201 206
From 1 month to 3 months	**236 556**	257 517	**236 556**	257 517
From 3 months to 1 year	**415 189**	363 796	**415 189**	363 796
From 1 year to 5 years	**1 148 908**	1 054 920	**1 148 908**	1 054 920
More than 5 years	**1 016 028**	857 774	**1 016 028**	857 774
	3 094 498	2 735 213	**3 094 498**	2 735 213
Equity finance				
Within 1 month	**574 184**	271 961	**574 184**	271 961
From 1 month to 3 months	**100 504**	276 127	**100 504**	276 127
	674 688	548 088	**674 688**	548 088
9.3 Analysis of impairment for doubtful advances				
9.3.1 Specific impairments	**7 137**	5 705	**7 137**	5 705
Balance at beginning of year	**5 705**	6 316	**5 705**	6 316
Charge to profit for the year	**1 827**	3 252	**1 827**	3 252
Bad debts written off	**(395)**	(3 863)	**(395)**	(3 863)
9.3.2 Portfolio impairments	**11 691**	10 804	**11 691**	10 804
Balance at beginning of year	**10 804**	10 002	**10 804**	10 002
Charge to profit for the year	**887**	802	**887**	802
	18 828	16 509	**18 828**	16 509
9.3.3 Impairment for credit losses				
Specific impairments	**1 827**	3 252	**1 827**	3 252
Portfolio impairments	**887**	802	**887**	802
Bad debts recovered	**(314)**	(204)	**(314)**	(204)
	2 400	3 850	**2 400**	3 850

There was a net increase in specific impairments of R1 826 981 for the year which was a result of impairments of R2 380 244 being raised and a further R553 263 being released.

10. South African Revenue Service

Income tax	**1 825**	649	**1 825**	649
Value added taxation	**-**	-	**-**	22
	1 825	649	**1 825**	671

Notes to the Financial Statements for the year ended 31 December 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
11. Cash and cash equivalents				
Cash on hand	**5 608**	3 154	**5 608**	3 154
Government and other stock	**73 711**	64 656	**73 711**	64 656
Balances with Central Bank	**394 230**	188 742	**394 230**	188 742
Placements with other banks	**45 579**	50 000	**45 579**	50 000
	519 128	306 552	**519 128**	306 552
The following banking facilities are available to the group:				
Letters of credit and guarantees	**20 000**	5 000	**20 000**	5 000
Foreign exchange facilities	**-**	129 849	**-**	129 849
Settlement facilities	**8 466**	7 000	**8 466**	7 000
	28 466	141 849	**28 466**	141 849

Deposits with the Central Bank of R149,6 million (2012: R133,5 million) and in Government stock of R73,7 million (2012: R64,7 million) represent mandatory reserve deposits for liquidity requirements and are therefore not available for use in the bank's daily operations.

12. Share capital and share premium				
12.1 Authorised share capital				
30 000 000 (2012: 30 000 000) ordinary shares of R10 each	**300 000**	300 000	**300 000**	300 000
12.2 Issued and fully paid share capital				
22 500 000 (2012: 22 500 000) ordinary shares of R10 each	**225 000**	225 000	**225 000**	225 000
12.3 Share premium				
Balance at beginning of year	**29 866**	29 866	**29 866**	29 866
Balance at end of year	**29 866**	29 866	**29 866**	29 866

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000

13. Welfare and charitable funds

Gross income from non-Islamic activities during the year	**8 006**	6 764	**8 006**	6 764
Normal tax thereon	**(1 149)**	(935)	**(1 149)**	(935)
Net income from non-Islamic activities during the year	**6 857**	5 829	**6 857**	5 829
Donations and advances	**(8 978)**	(4 206)	**(8 978)**	(4 206)
Balance at beginning of year	**4 418**	2 795	**4 418**	2 795
Balance at end of year	**2 297**	4 418	**2 297**	4 418

14. Accounts payable

Sundry creditors	**25 248**	15 571	**25 212**	15 526
Accruals	**6 064**	7 628	**5 972**	6 578
	31 312	23 199	**31 184**	22 104

Terms and conditions of the above financial liabilities: Sundry creditors are non-interest bearing and are normally settled on 30-day terms.

Accruals are non-interest bearing and have an average term of six months.

15. South African Revenue Service Payable

Value added taxation	**134**	73	**32**	-
South African Revenue Service liability	**158**	158	**158**	158
	292	231	**190**	158

Payables to the South African Revenue Service in terms of Value Added Taxation are settled within 30 days to avoid penalties and interest. The South African Revenue Service liability represents PAYE due to the revenue authorities and is expected to be settled within the following 6 months.

16. Provision for leave pay

Balance at beginning of year	**5 111**	4 341	**5 111**	4 341
Accrued and utilised during the year	**558**	770	**558**	770
Balance at end of year	**5 669**	5 111	**5 669**	5 111

The provision for leave pay provided is determined by multiplying the accumulated days of leave due per employee by the rate per day of that specific employee. The provision is expected to increase as the leave days accrue and decrease as leave is taken or paid out on the retirement or resignation of any specific employee.

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
17. Deposits from customers				
Participation investment accounts	**1 717 653**	1 514 592	**1 717 653**	1 514 592
Savings accounts	**8 231**	9 922	**8 231**	9 922
Monthly investment plan	**130 207**	115 425	**130 207**	115 425
Haj investment scheme	**110 461**	102 946	**110 461**	102 946
Regular income provider	**1 622 251**	1 370 425	**1 622 251**	1 370 425
Electronic banking	**227 583**	140 649	**227 583**	140 649
Profits distributable to depositors	**32 717**	25 511	**32 717**	25 511
Guarantee deposit accounts	**20 575**	-	**20 575**	-
Other	**70 958**	42 034	**70 958**	42 034
	3 940 636	3 321 504	**3 940 636**	3 321 504
Maturity analysis				
Within 1 month	**1 590 414**	1 209 748	**1 590 414**	1 209 748
From 1 month to 3 months	**699 453**	729 934	**699 453**	729 934
From 3 months to 1 year	**1 615 432**	1 353 670	**1 615 432**	1 353 670
Greater than 1 year	**2 620**	2 640	**2 620**	2 640
More than 5 years	**32 717**	25 512	**32 717**	25 512
	3 940 636	3 321 504	**3 940 636**	3 321 504

The maturity of the deposit products offered by the bank range from current to 720 days. As such, amounts reflected as more than 5 years are representative of funds held as an investment risk reserve for the benefit of the total depositor pool. These funds are reserved for the protection of depositor monies should the need arise.

18. Sharholders mudaraba advance

Shareholders mudaraba advance	**50 005**	-	**50 005**	-

The shareholders mudaraba advance was received in December 2013 from the holding company, Al Baraka Banking Group BSC in support of the bank's required capital position. The funds earn profit within the pool on similar terms to the 35-day participation investment account. The advance is subordinated in favour of all creditors and does not have a defined maturity date.

19. Income paid to depositors

Income paid to depositors is based on the profit sharing ratio agreed upon between the depositor and the bank at the time of the initial investment. On maturity, this income is either paid out to the depositor on instruction or reinvested on the depositors' behalf within the category of the initial deposit.

20. Net non-Islamic income

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Interest income	**8 006**	6 762	**8 006**	6 762
Other non-Shariah-compliant income	**-**	2	**-**	2
	8 006	6 764	**8 006**	6 764
Amount transferred to welfare and charitable funds	**(8 006)**	(6 764)	**(8 006)**	(6 764)
	-	-	**-**	-

21. Fee and commission income

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Service fees	**19 715**	15 311	**19 715**	15 311
Commission received on sale of unit trusts	**4 575**	2 589	**4 575**	2 589
Profit from foreign currency trading	**3 754**	3 485	**3 754**	3 485
Management fee from subsidiary	**-**	-	**200**	200
	28 044	21 385	**28 244**	21 585

22. Other operating income

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Property rental income	**273**	440	**212**	190
Net parking income from investment property	**698**	469	**-**	-
Tank container rental income	**1 066**	834	**1 066**	834
Dividend income	**353**	317	**2 353**	18 317
Fair value gain on financial instrument	**1 110**	1 066	**1 110**	1 066
Other	**817**	1 030	**817**	1 030
	4 317	4 156	**5 558**	21 437

Notes to the Financial Statements for the year ended 31 December 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
23. Operating expenditure				
Operating expenditure includes:				
Auditor's remuneration				
Audit fees – current year	**1 976**	2 208	**1 946**	2 168
– prior year under-provision	**167**	299	**167**	299
Fees for other services				
– tax consultancy	**58**	54	**58**	54
– other	**384**	175	**384**	175
	2 585	2 736	**2 555**	2 696
Consultancy fees	**2 370**	3 296	**2 356**	3 234
Depreciation of property and equipment	**4 865**	3 632	**9 095**	7 861
Depreciation on investment property	**76**	152	**-**	-
Amortisation of intangible assets	**3 030**	3 380	**3 030**	3 380
Assets written off	**98**	407	**98**	407
Net loss on disposal of property and equipment	**5**	17	**5**	17
Change in estimate – VAT refund (note 33)	**492**	1 296	**492**	1 296
Operating lease charges	**1 998**	1 884	**2 253**	2 137
Research costs	**1 471**	632	**1 471**	632
Staff costs	**68 259**	60 331	**68 259**	60 331
Directors' emoluments			**4 898**	4 194
Executive services			**3 610**	2 978
Non-executive directors' fees			**1 288**	1 216

	Salary	Other benefits	Total
	R'000	R'000	R'000
23.1 Executive services			
Company only			
2013			
SAE Chohan - Chief executive	**1 794**	**397**	**2 191**
MJD Courtiade - Chief operating officer	**1 309**	**110**	**1 419**
	3 103	**507**	**3 610**
2012			
SAE Chohan - Chief executive	1 669	99	1 768
MJD Courtiade - Chief operating officer	1 160	50	1 210
	2 829	149	2 978

Salary and other benefits are short-term benefits as classified per IAS 24

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
23.2 Non-executive directors' fees				
AA Yousif			**138**	129
Adv. AB Mahomed SC			**163**	147
F Kassim			**105**	98
A Lambat			**153**	136
MS Paruk			**188**	179
YM Paruk			**137**	126
SA Randeree			**149**	150
M Youssef Baker			**134**	138
MG McLean			**121**	113
			1 288	1 216

24. Taxation

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
South African tax				
Normal - current year	**11 572**	8 306	**11 572**	8 306
- prior year	**(770)**	-	**(770)**	-
Attributable to income from non-Islamic activities (refer accounting policy 11 and note 13)	**(1 149)**	(935)	**(1 149)**	(935)
Deferred tax - current year	**995**	797	**(3 051)**	(4 861)
- prior year	**852**	-	**852**	-
Secondary tax on companies	**-**	971	**-**	971
Taxation attributable to Islamic activities	**11 500**	9 139	**7 454**	3 481

The deferred tax - prior year adjustment results from differences between the calculated taxation at the prior financial year-end as compared to the submitted taxation return as due within the current year.

Reconciliation of taxation charge	**%**	%	**%**	%
Effective tax rate	**28,4**	26,6	**26,9**	9,0
Secondary tax on companies	**-**	(2,8)	**-**	(2,5)
Adjustable items:				
Non-taxable income and non-deductible expenditure	**(0,8)**	(1,8)	**0,6**	11,5
Recognition of temporary differences on the finance lease	**-**	-	**-**	10,0
Reversal of impairment of deferred tax asset	**-**	6,0	**-**	-
Current tax adjustment - prior year	**2,5**	-	**3,6**	-
Deferred tax adjustment - prior year	**(2,1)**	-	**(3,1)**	-
	28,0	28,0	**28,0**	28,0

Notes to the Financial Statements for the year ended 31 December 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
25. Earnings per share				
Basic earnings per share are calculated on after tax income attributable to ordinary shareholders and a weighted average number of 22 500 000 (2012: 22 500 000) ordinary shares in issue during the year (cents)	**128,7**	112,2		
Headline earnings per share are calculated on headline earnings and a weighted number of 22 500 000 (2012: 22 500 000) ordinary shares in issue during the year (cents)	**129,1**	114,1		
Headline earnings per share are derived from:				
Profit for the year	**28 947**	25 255		
Loss arising on disposal of property and equipment	**5**	17		
Write-off of property, equipment and intangible assets	**98**	407		
	29 050	25 679		
26. Dividends				
A dividend of 45 cents per share (2012: 45 cents) was paid on 18 October 2013 to shareholders registered on the shareholders register of the bank at the close of business on 04 October 2013.	**10 125**	10 125	**10 125**	10 125

	Group		Company	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
27. Statement of cash flows				
27.1 Cash generated from operations				
Profit before taxation	**40 447**	34 394	**27 752**	38 574
Adjustment for non-cash items and investment income:				
Depreciation of property and equipment	**4 865**	3 632	**9 095**	7 861
Depreciation of investment property	**76**	152	**-**	-
Dividend income	**(353)**	(317)	**(2 353)**	(18 317)
Impairment of property and equipment	**-**	-	**-**	-
Amortisation of intangible assets	**3 030**	3 380	**3 030**	3 380
Loss on disposal of property and equipment	**52**	17	**52**	17
Assets written-off	**98**	407	**98**	407
Straight-lining of operating leases	**(108)**	1	**(131)**	4
Provision for leave pay	**558**	770	**558**	770
Impairment for credit losses	**(2 714)**	(4 054)	**(2 714)**	(4 054)
Fair value gain on financial instruments	**(1 109)**	(1 066)	**(1 109)**	(1 066)
	44 842	37 316	**34 278**	27 576
27.2 Changes in working capital				
Increase in deposits from customers	**619 132**	440 476	**619 132**	440 476
Increase in accounts payable	**315**	12 646	**1 276**	12 213
(Decrease)/increase in welfare and charitable funds	**(972)**	2 559	**(972)**	2 559
Increase in advances and other receivables	**(480 958)**	(439 582)	**(480 964)**	(439 573)
	137 517	16 099	**138 472**	15 675
27.3 Taxation paid				
Amount receivable at beginning of year	**649**	1 899	**649**	1 899
Amount charged to profit for the year	**(9 653)**	(8 342)	**(9 653)**	(8 342)
Amount charged to welfare and charitable funds	**(1 149)**	(935)	**(1 149)**	(935)
Amount receivable at end of year	**(1 825)**	(649)	**(1 825)**	(649)
	(11 978)	(8 027)	**(11 978)**	(8 027)
27.4 Dividends paid				
Amount outstanding at beginning of year	**-**	-	**-**	-
Dividends declared	**(10 125)**	(10 125)	**(10 125)**	(10 125)
Amount outstanding at end of year	**7 967**	-	**7 967**	-
	(2 158)	(10 125)	**(2 158)**	(10 125)

Notes to the Financial Statements for the year ended 31 December 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
27. Statement of cash flows (continued)				
27.5 Purchase of property and equipment				
Land and buildings	**-**	-	**-**	-
Vehicles	**(446)**	(178)	**(446)**	(178)
Equipment and computers	**(1 531)**	(1 764)	**(1 531)**	(1 764)
Leasehold improvements	**(28)**	(474)	**(28)**	(474)
Work in progress	**(2 090)**	(3 951)	**(2 090)**	(3 951)
Change in accounting estimate – VAT on capital expenditure (note 33)	**-**	307	**-**	307
	(4 095)	(6 060)	**(4 095)**	(6 060)
27.6 Additions to investment properties				
Land	**-**	(22)		
	-	(22)		
27.7 Purchase of intangible assets				
Computer software	**(595)**	(663)	**(595)**	(663)
Capitalised project costs	**(194)**	(93)	**(194)**	(93)
Change in accounting estimate – VAT on capital expenditure (note 33)	**-**	491	**-**	491
Work in progress	**(1 057)**	-	**(1 057)**	-
	(1 846)	(265)	**(1 846)**	(265)

28. Letters of credit, guarantees and confirmations

Guarantees and confirmations	**191 718**	140 218	**191 718**	143 518
Letters of credit	**4 810**	152	**4 810**	152
	196 528	140 370	**196 528**	143 670

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.

29. Capital commitments

Authorised but not yet contracted for	**-**	-	**-**	-
Authorised and contracted for				
- Property and equipment	**12**	34	**12**	34
- Intangible assets	**-**	-	**-**	-
	12	34	**12**	34

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

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
30. Financial instruments				
30.1 Credit risk - maximum exposure to credit risk				
Advances to customers (note 9.1)	**3 094 498**	2 735 213	**3 094 498**	2 735 213
Advances and balances with banks	**720 267**	598 088	**720 267**	598 088
Advances and balances with Central Bank	**467 941**	253 398	**467 941**	253 398
Letters of credit, guarantees and confirmations	**196 528**	140 370	**196 528**	143 670
	4 479 234	3 727 069	**4 479 234**	3 730 369
30.2 Currency risk management				
The group's exposure to currency risk was as follows:				
Cash and cash equivalents				
- EUR	**270**	57	**270**	57
- GBP	**113**	64	**113**	64
- SAR	**123**	31	**123**	31
- USD	**3 904**	1 620	**3 904**	1 620
- Others	**286**	88	**286**	88
	4 696	1 860	**4 696**	1 860

30.3 Derivative instruments

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

Notes to the Financial Statements for the year ended 31 December 2013

30. Financial instruments (continued)

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

	Carrying amount R'000	Within 1 Month R'000	1 to 3 months R'000	3 months to 1 year R'000	1 to 5 Years R'000	More than 5 years R'000
Group						
2013						
Assets						
Advances and other receivables	**3 752 994**	**852 442**	**337 942**	**416 511**	**1 148 908**	**997 191**
South African Revenue Service	**1 825**	**-**	**-**	**1 825**	**-**	**-**
Investment securities	**9 906**	**-**	**-**	**-**	**-**	**9 906**
Cash and cash equivalents	**519 128**	**420 450**	**22 852**	**-**	**-**	**75 826**
	4 283 853	**1 272 892**	**360 794**	**418 336**	**1 148 908**	**1 082 923**
Liabilities						
Deposits from customers	**3 940 636**	**1 590 414**	**699 452**	**1 615 432**	**2 620**	**32 718**
Accounts payable	**31 312**	**22 814**	**353**	**7 985**	**-**	**160**
South African Revenue Service	**292**	**134**	**-**	**158**	**-**	**-**
Provision	**5 669**	**472**	**945**	**4 252**	**-**	**-**
Mudaraba shareholder advance	**50 005**	**-**	**-**	**-**	**-**	**50 005**
Letters of credit, guarantees and confirmations	**196 528**	**6 617**	**91 625**	**57 462**	**19 073**	**21 751**
	4 224 442	**1 620 451**	**792 375**	**1 685 289**	**21 693**	**104 634**
Net liquidity gap	**59 411**	**(347 559)**	**(431 581)**	**(1 266 953)**	**1 127 215**	**978 289**
2012						
Assets						
Advances and other receivables	3 269 322	473 589	534 487	365 062	1 054 920	841 264
South African Revenue Service	649	-	-	649	-	-
Investment securities	8 719	-	-	-	-	8 719
Cash and cash equivalents	306 552	192 814	46 692	-	-	67 046
	3 585 242	666 403	581 179	365 711	1 054 920	917 029
Liabilities						
Deposits from customers	3 321 504	1 209 748	729 934	1 353 670	2 640	25 512
Accounts payable	23 199	22 539	348	173	-	139
South African Revenue Service	231	73	-	158	-	-
Provision	5 111	426	852	3 833	-	-
Letters of credit, guarantees and confirmations	140 370	16 532	41 187	49 632	16 495	16 524
	3 490 415	1 249 318	772 321	1 407 466	19 135	42 175
Net liquidity gap	94 827	(582 915)	(191 142)	(1 041 755)	1 035 785	874 854

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
30.5 Market risk				
The exposure to market risk is as follows:				
Investment securities - fair-value-through-profit-or-loss	**7 306**	6 119	**7 306**	6 119
Investment securities - available-for-sale	**2 600**	2 600	**2 600**	2 600
	9 906	8 719	**9 906**	8 719

30.6 Intrinsic rate risk

Loans and borrowings subject to intrinsic rate risk	Intrinsic rate	Maturity	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
	14,3%	2024				
Current portion – less than 12 months					**8 834**	8 179
Non-current portion – greater than 12 months					**62 081**	61 527
Total obligations under finance leases (note 31.3)					**70 915**	69 706

Intrinsic rate risk is limited to the finance lease between the bank and its wholly-owned subsidiary. The total value of the finance lease liability has been classified as current in the 2011 financial year due to the intended dissolution of the subsidiary in that year.

30.7 Accounting classification and fair values

The fair value of assets in the group and company are not materially different and thus only group disclosures have been presented. Please refer to note 6 for information regarding details of balances of amounts owing between the company and the subsidary.

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.

Set out herein 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.

Notes to the Financial Statements for the year ended 31 December 2013

	Advances and receivables R'000	Available-for-sale R'000	Held to maturity R'000	Amortised Cost R'000	Fair-value-through-profit-and-loss R'000	Carrying amount R'000
30. Financial instruments (continued)						
30.7 Accounting classification and fair values (continued)						
Group						
2013						
Assets						
Advances and other receivables	**3 750 358**	**-**	**-**	**-**	**-**	**3 750 358**
Investment securities	**-**	**2 600**	**-**	**-**	**7 306**	**9 906**
Cash and cash equivalents	**445 417**	**-**	**73 711**	**-**	**-**	**519 128**
	4 195 775	**2 600**	**73 711**	**-**	**7 306**	**4 279 392**
Liabilities						
Deposits from customers	**-**	**-**	**-**	**3 940 636**	**-**	**3 940 636**
Accounts payable	**-**	**-**	**-**	**31 312**	**-**	**31 312**
	-	**-**	**-**	**3 971 948**	**-**	**3 971 948**
2012						
Assets						
Advances and other receivables	3 266 792	-	-	-	-	3 266 792
Investment securities	-	2 600	-	-	6 119	8 719
Cash and cash equivalents	241 896	-	64 656	-	-	306 552
	3 508 688	2 600	64 656	-	6 119	3 582 063
Liabilities						
Deposits from customers	-	-	-	3 321 504	-	3 321 504
Accounts payable	-	-	-	23 199	-	23 199
	-	-	-	3 344 703	-	3 344 703

30.8 Fair value hierarchy
The fair value of assets in the group and company are not materially different and thus only group disclosures have been presented. The group 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.

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

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group				
2013				
Financial assets				
Investment securities – fair-value-through-profit-or-loss				
- Unit trust investments	**7 306**	**-**	**-**	**7 306**
	7 306	**-**	**-**	**7 306**
Financial liabilities	**-**	**-**	**-**	**-**
2012				
Financial assets				
Investment securities – fair-value-through-profit-or-loss				
- Unit trust investments	6 119	-	-	6 119
	6 119	-	-	6 119
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.

Financial investments – Fair-value-through-profit-or-loss
Fair-value-through-profit-or-loss financial assets which are valued using quoted (unadjusted) prices consist of quoted equities.

	Group		Company	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
31. Leases				
Operating leases				
31.1 Leases as lessee				
Non-cancellable operating lease rentals payable are as follows:				
Less than one year	**1 353**	1 761	**1 658**	2 038
Between one and five years	**2 095**	233	**2 096**	539
	3 448	1 994	**3 754**	2 577

The rentals disclosed above relate to the leasing of commercial premises, occupied by retail and corporate branches of Albaraka Bank Limited. These leases have an average life of between one and three years with renewal options included in the contracts. The inter-group operating lease rentals payable have only been disclosed in the comparative year up to the anticipated date of dissolution of the subsidiary. With the termination of the dissolution, the current period's disclosure extends to the expiration of the lease contracts. Operating lease rentals are accounted for on a straight line basis over the period of the lease.

Notes to the Financial Statements for the year ended 31 December 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
31. Leases (continued)				
31.2 Leases as lessor				
Non-cancellable operating lease rentals receivable are as follows:				
Less than one year	**48**	41		
Between one and five years	**-**	-		
	48	41		

Operating lease rentals receivable relate to building premises owned by Albaraka Properties Proprietary Limited. The associated rental income is accounted for on a straight line basis over the period of the lease.

	2013		2012	
	Minimum payments	**Present value of payments**	Minimum payments	Present value of payments
Finance leases				
31.3 Leases as lessee – company				
Less than one year	**9 427**	**8 834**	8 729	8 179
Between one and five years	**45 878**	**30 111**	42 479	27 881
More than five years	**97 998**	**31 970**	110 823	33 646
Total minimum lease payments	**153 303**	**70 915**	162 031	69 706
Less amounts representing finance charges	**(82 388)**	**-**	(92 325)	-
Present value of minimum lease payments (note 6)	**70 915**	**70 915**	69 706	69 706

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% (2012: 14,3%) after considering the unguaranteed residual value of R72,0 million (2012: R72,0 million) which will be realised at the end of the lease.

32. 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 R4,4 million (2012: R2,0 million).

33. Change in accounting estimate

During the 2012 and 2013 financial periods, the bank conducted a Value Added Tax (VAT) review, based on the Value Added Tax Act, No. 89 of 1991, in order to identify potential VAT savings.

The review revealed that the bank had not applied the VAT legislation to its best advantage, specifically where technical and specialised interpretations were required, which resulted in the bank having under-claimed VAT to the value of R0,5 million (2012: R2,1 million) over the period evaluated.

This comprises R0,5 million - tax effect of R0,1 miilion (2012: R1,3 million - tax effect of R0,4 million) on revenue expenditure and nil (2012: R0,8 million) on capital expenditure.

The additional VAT claim was accepted by the taxation authorities and the full refund was received in the respective years.

The results of the assessment were treated as a change in accounting estimate in terms of IAS 8 – Accounting policies, changes in accounting estimates and errors.

The revenue component of the refund is presented within operating expenditure (note 23). The capital component is presented within property and equipment and intangible assets (note 3 and note 5) under the transfers line.

The capital component resulted in a revision of the depreciation charge for the 2012 year in the sum of R0,6 million, which is presented within the depreciation and amortisation line in note 3 and note 5 respectively.

Notes to the Financial Statements for the year ended 31 December 2013

34. Related party information

The holding company of Albaraka Bank Limited at 31 December 2013 is Al Baraka Banking Group B.S.C. which is a company registered in the Kingdom of Bahrain and which holds 62,2% (2012: 62,2%) of the company's ordinary shares.

During the 2013 financial year the holding company forwarded a mudaraba advance of R50,0 million to the bank which is disclosed in further detail in note18.

DCD Holdings (SA) Proprietary Limited and DCD London & Mutual Plc, a company incorporated in England and Wales, jointly hold 12,6% (2012: 12,6%) of the company's ordinary shares.

Timewest Investments Proprietary Limited, a company incorporated in South Africa, holds 7,7% (2012: 7,7%) 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 bank, Albaraka Properties (Proprietary) Limited, and the related inter-company balances are identified in note 6. The property rentals paid to the subsidiary for the year amounted to R255 099 (2012: R255 099).

The bank also made finance lease repayments amounting to R8 728 758 (2012: R8 082 183) for the year. As the subsidiary does not maintain a physical bank account, all revenue and expenditure transactions are facilitated by Albaraka Bank Limited and are accounted for via the inter-company account.

The management fee charged to the subsidiary is disclosed in note 21.

The directors are considered the key management personnel and the remuneration paid to the directors is disclosed in note 23.

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 companies containing the nature of such interests, as well as the nature and extent of the beneficial shares held in the companies is submitted to the board of directors annually for reviewing and updating.

Balances owing by/(to) related parties, including loans to executive and non-executive directors, are disclosed herein:

	Company	
	2013	2012
	R'000	R'000
Property finance - musharaka and murabaha		
Balance outstanding at beginning of year	**7 337**	9 072
Advances granted during the year	**10 000**	-
Repayments during the year	**(1 881)**	(3 318)
Profit earned	**1 064**	1 583
	16 520	7 337
Profit mark-up range for the year	**5,0% - 9,5%**	5,0% - 9,5%

The profit mark-up of 5% is in respect of advances to executive directors at subsidised rates which, at year end amounted to R15 632 (2012: R108 894)

Instalment sale		
Balance outstanding at beginning of year	**1 390**	914
Advances granted during the year	**861**	1 000
Repayments during the year	**(1 067)**	(625)
Profit earned	**276**	101
	1 460	1 390
Profit mark-up range for the year	**8,5% - 15,0%**	9,5% - 15,0%
Trade finance		
Balance outstanding at beginning of year	**3 791**	4 387
Advances granted during the year	**9 658**	8 158
Repayments during the year	**(10 151)**	(10 384)
Profit earned	**687**	1 630
	3 985	3 791
Profit mark-up range for the year	**8,5% - 9,0%**	8,5% - 9,5%
Iqraa Trust		
Balance due to the trust at beginning of year	**(5)**	(15)
Funds received on behalf of the trust	**(12)**	(4)
Funds paid over to the trust	**17**	14
Balance due to the trust at end of year	**-**	(5)

During the year, the bank donated an amount of R4 643 302 (2012: R2 455 837) to the trust.

At 31 December 2013 funds deposited by the trust with the bank amounted to R35 098 393 (2012: R31 980 711)

Total exposure to related parties	**21 965**	12 513

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	**38 388**	34 069

Notes to the Financial Statements for the year ended 31 December 2013

35. Contingent liability

It was identified that certain contributions made by employees to third parties had been incorrectly classified by the bank. This could result in a possible obligation by the employees which the bank may bear. Discussions have been held by the bank and the relevant authority, as to how the obligation will be extinguished going forward and an independent tax advice has been obtained which supports the remedial actions proposed by the bank. Therefore the bank has determined that the likelihood of a future obligation materialising is not probable based on the information available at the date of the annual financial statements, and therefore no provision has been recognised. However it is possible that a further liability may arise.

36. Standards and interpretations not yet effective

	Effective Date
At the date of authorisation of the annual financial statements for the year ended 31 December 2013, the following accounting standards, interpretations and amendments were in issue but not yet effective. These standards will be adopted at their effective dates, with no early adoption intended.	
IFRS 9 Financial Instruments The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. The effect of this standard on the group financial statements is in the process of being evaluated.	1 Jan 2018
IAS 32 Off-setting Financial Assets and Financial Liabilities This standard was amended to clarify the meaning of "legally enforceable right". This is not expected to impact the group financial statements.	1 Jan 2014
IAS 36 Impairment of Assets This standard was amended to clarify the disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This is not expected to impact the group financial statements.	1 Jan 2014

37. Adoption of new standards

	Effective Date
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 2013:	
IAS 1 Presentation of Financial Statements The amendment clarifies that comparative information in respect of the previous period forms part of a complete set of financial statements.	1 Jan 2013
IAS 16 Property, Plant and Equipment The amendment clarifies that servicing equipment is Property, Plant and Equipment when used during more than one period. There is currently no effect on the group financial statements.	1 Jan 2013
IAS 19 - Employee Benefits This standard combines changes to the corridor method and expected returns on plan assets. There is currently no effect on the group financial statements.	1 Jan 2013

	Effective Date
IAS 27 Separate Financial Statements Consolidation requirements previously forming part of IAS 27 have been revised and are now contained in IFRS 10 Consolidated Financial Statements. There is currently no effect on the group financial statements.	1 Jan 2013
IAS 28 Investments in Associates and Joint Ventures The standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. There is currently no effect on the group financial statements.	1 Jan 2013
IAS 34 Interim Financial Reporting This amendment aligns the disclosure requirements in IAS 34 with those of IAS 8 Operating Segments. There is currently no effect on the group financial statements.	1 Jan 2013
IFRS 1 First Time adoption of IFRS The amendment clarifies the guidance relating to the repeat application of IFRS 1. This does not impact the group financial statements.	1 Jan 2013
IFRS 10 Consolidated Financial Statements This standard introduces a new single control model as the basis for consolidation applicable to all investees. It also introduces a changed definition of control. The effect of this standard on the group financial statements has been evaluated with no changes identified.	1 Jan 2013
IFRS 11 Joint Arrangements This standard establishes principles for the financial reporting by parties to a joint arrangement. The effect of this standard on the group financial statements has been evaluated with no changes identified.	1 Jan 2013
IFRS 12 Disclosure of Interests in Other Entities This standard combines, enhances and replaces disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The effect of this standard on the group financial statements has been evaluated with no changes identified.	1 Jan 2013
IFRS 13 – Fair Value Measurement This standard applies when other IFRS require or permit fair value measurements. It defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The group has modified its disclosures accordingly.	1 Jan 2013
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine This applies to all types of natural resources that are extracted using the surface mining activity process. This standard is not applicable to the activities of the group.	1 Jan 2013

AAOIFI Statement of Financial Position As at 31 December 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
Assets				
Cash and cash equivalents	**519 128**	306 552	**519 128**	306 552
Sales receivables	**1 641 937**	1 402 558	**1 641 937**	1 402 558
Musharaka financing	**2 108 421**	1 863 370	**2 108 421**	1 863 370
Investment securities	**9 906**	8 719	**9 906**	8 719
Investment in subsidiary company			**15 294**	22 903
Total investments	**4 279 392**	3 581 199	**4 294 686**	3 604 102
Other assets	**4 836**	6 265	**20 115**	17 492
Property and equipment	**97 811**	98 655	**67 934**	73 008
Investment properties	**10 476**	10 552	**-**	-
Intangible assets	**18 296**	19 570	**18 296**	19 570
Total assets	**4 410 811**	3 716 241	**4 401 031**	3 714 172
Liabilities, unrestricted investment accounts and owners' equity				
Liabilities				
Customer current accounts and other	**298 541**	182 683	**298 541**	182 683
Payables	**37 273**	28 541	**37 043**	27 373
Other liabilities	**2 297**	4 418	**2 297**	4 418
Shareholders mudaraba advance	**50 005**		**50 005**	
Total liabilities	**388 116**	215 642	**387 886**	214 474
Unrestricted investment accounts	**3 642 095**	3 138 821	**3 642 095**	3 138 821
Equity of unrestricted investment account holders	**3 609 378**	3 113 310	**3 609 378**	3 113 310
Profits distributable to unrestricted investment account holders	**32 717**	25 511	**32 717**	25 511
Total liabilities and unrestricted investment accounts	**4 030 211**	3 354 463	**4 029 981**	3 353 295
Owners' equity	**380 600**	361 778	**371 050**	360 877
Share capital	**225 000**	225 000	**225 000**	225 000
Share premium	**29 866**	29 866	**29 866**	29 866
Retained income	**125 734**	106 912	**116 184**	106 011
Total liabilities, unrestricted investment accounts and owners' equity	**4 410 811**	3 716 241	**4 401 031**	3 714 172

AAOIFI Statement of Comprehensive Income For the year ended 31 December 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
Income from sales receivables	**105 386**	100 289	**105 386**	100 289
Income from musharaka financing	**185 994**	162 952	**185 994**	162 952
Return on unrestricted investment accounts before the bank's share as mudarib	**291 380**	263 241	**291 380**	263 241
Less: bank's share as mudarib	**(138 171)**	(124 066)	**(138 171)**	(124 066)
Return on unrestricted accounts	**153 209**	139 175	**153 209**	139 175
Bank's share in income from investment (as a mudarib and as a fund owner)	**138 171**	124 066	**138 171**	124 066
Bank's income from its own investments	**353**	317	**2 353**	18 317
Revenue from banking services	**19 715**	15 311	**19 715**	15 311
Other revenue	**12 293**	9 913	**11 734**	9 394
Total bank revenue	**170 532**	149 607	**171 973**	167 088
Administrative and general expenditure	**(122 190)**	(108 201)	**(132 096)**	(117 273)
Depreciation of property and equipment	**(4 865)**	(3 632)	**(9 095)**	(7 861)
Amortisation of intangible assets	**(3 030)**	(3 380)	**(3 030)**	(3 380)
Profit before taxation	**40 447**	34 394	**27 752**	38 574
Taxation	**(11 500)**	(9 139)	**(7 454)**	(3 481)
Profit for the period	**28 947**	25 255	**20 298**	35 093

Al Baraka Banking Group Holding Company and Subsidiaries

Bahrain

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AlBaraka Tower
Diplomatic Area
PO Box 1882, Manama, Kingdom of Bahrain
Board Member, President and
Chief Executive:
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Web: www.albaraka.com

Al Baraka Islamic Bank B.S.C.
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Algeria

Banque Al Baraka D'Algerie S.P.A.
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