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

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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.

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Adnan Ahmed Yousif	**Shabir Chohan**
Chairman	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:

Shabir Chohan

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Adnan Ahmed Yousif
Chairman

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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.

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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.

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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.
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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

	Notes	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 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.