

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2014

Your Partner Bank

alBaraka 

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014



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. Albaraka Bank Limited's acting general manager: finance, Sumeshion Chetty CA(SA), was responsible for the preparation of the annual financial statements and financial director, Abdullah Ameen, CA(SA), was responsible for the review of the financial statements.

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 statement of financial position as at 31 December 2014 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 company's directors are also responsible for the preparation and fair presentation of the audit committee report, company secretary statement and directors' report.

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 International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Approval of group annual financial statements and company annual financial statements

The group and company annual financial statements set-out on pages 36 to 81 were approved by the board of directors on 27 March 2015 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
27 March 2015

During the financial year ended 31 December 2014, the audit 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 03 June 2015.

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'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 may provide to the company/group;
6. regularly met separately in confidence with Ernst & Young;
7. through enquiry, ascertained that Ernst & Young has not identified any irregularity that required reporting thereof to IRBA; and
8. evaluated and were satisfied with the independence of Ernst & Young

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 consolidated financial statements

We have audited the consolidated and separate financial statements of Albaraka Bank Limited set-out on pages 36 to 81, which comprise the statements of financial position as at 31 December 2014, 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 consolidated 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.

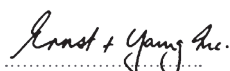
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2014, 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 2014, 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.
Director – Merisha Kassie
Registered Auditor
Chartered Accountant (SA)

27 March 2015
Durban

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The directors have pleasure in presenting their report for the year ended 31 December 2014.

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 PO Box 1882, Manama, Kingdom of Bahrain.

Share capital

The authorised share capital of the company comprises 100,0 million (2013: 30,0 million) ordinary shares of R10 each amounting to R1,0 billion (2013: R300,0 million). The issued share capital of the company comprises 32,2 million (2013: 22,5 million) ordinary shares of R10 each amounting to R322,4 million (2013: R225,0 million).

Financial results

The results of the group and the company for the year ended 31 December 2014 are set out on pages 36 to 81.

Dividends

On 28 November 2014 the directors declared a dividend of 45 cents (2013: 45 cents) per share amounting to R10,13 million (2013: R10,13 million) paid to shareholders registered as at close of business on 07 August 2014.

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 2014 financial year.

Capital management

In relation to the requirements of the Banks Act and Regulations, the bank was granted condonation by the South African Reserve Bank in regard to its capital management. The bank issued R150 million in shares via a rights issue, which was completed in September of the review period, in order to strengthen its capital position and allow for growth in the medium-term. The bank will continue to investigate other potential sources of capital to support its expected growth in the long-term.

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

(Bahraini)

Chairman

Independent non-executive

SA Randeree

(British)

Vice chairman

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)

MJD Courtiade CA(SA)

A Ameer CA(SA)

(French)

Chief executive

Chief operating officer

Financial director**

* Independent from 03 March 2014

** Effective from 01 July 2014

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

PO 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 2014

	Notes	Group		Company	
		2014	2013	2014	2013
		R'000	R'000	R'000	R'000
Assets					
Property and equipment	3	104 600	97 811	69 261	67 934
Investment properties	4	10 399	10 476	-	-
Intangible assets	5	18 849	18 296	18 849	18 296
Investment in and amount due by subsidiary company	6	-	-	13 816	15 294
Deferred tax asset	7	614	375	20 097	15 815
Investment securities	8	20 575	9 906	20 575	9 906
Advances and other receivables	9	4 241 636	3 752 994	4 241 414	3 752 833
South African Revenue Service receivable	10	-	1 825	-	1 825
Cash and cash equivalents and other similar instruments	11	417 182	519 128	417 182	519 128
Total assets		4 813 855	4 410 811	4 801 194	4 401 031
Equity and liabilities					
Equity					
Share capital	12	322 403	225 000	322 403	225 000
Share premium	12	82 196	29 866	82 196	29 866
Retained income		155 126	125 734	142 652	116 184
Shareholders' interests		559 725	380 600	547 251	371 050
Liabilities					
Welfare and charitable funds	13	3 734	2 297	3 734	2 297
Accounts payable	14	14 434	31 312	14 247	31 184
South African Revenue Service payable	15	432	292	432	190
Provision for leave pay	16	5 845	5 669	5 845	5 669
Deposits from customers	17	4 229 685	3 940 636	4 229 685	3 940 636
Shareholders mudaraba advance	18	-	50 005	-	50 005
Total liabilities		4 254 130	4 030 211	4 253 943	4 029 981
Total equity and liabilities		4 813 855	4 410 811	4 801 194	4 401 031

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Group		Company	
		2014	2013	2014	2013
		R'000	R'000	R'000	R'000
Income earned from advances		303 766	262 131	303 766	262 131
Income earned from equity finance		30 548	29 249	30 548	29 249
Gross income earned		334 314	291 380	334 314	291 380
Income paid to depositors	19	(171 545)	(153 209)	(171 545)	(153 209)
Net income before impairment for credit losses		162 769	138 171	162 769	138 171
Impairment for credit losses	9.3.3	(3 767)	(2 400)	(3 767)	(2 400)
Net income after impairment for credit losses		159 002	135 771	159 002	135 771
Net non-Islamic income	20	-	-	-	-
Fee and commission income	21	35 322	28 044	35 522	28 244
Other operating income	22	4 120	4 317	10 500	5 558
Net income from operations		198 444	168 132	205 024	169 573
Operating expenditure	23	(143 323)	(127 685)	(146 805)	(131 884)
Finance costs		-	-	(10 066)	(9 937)
Profit before taxation		55 121	40 447	48 153	27 752
Taxation	24	(15 604)	(11 500)	(11 560)	(7 454)
Total comprehensive income for the year, net of tax, attributable to equity holders		39 517	28 947	36 593	20 298
Weighted average number of shares in issue ('000)		25 747	22 500		
Earnings per share (cents)	25	153,5	128,7		

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014



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YOUR PARTNER BANK

	Share capital	Share premium	Retained income	Shareholders' interest
	R'000	R'000	R'000	R'000
Group				
2014				
Balance at beginning of year	225 000	29 866	125 734	380 600
Total comprehensive income	-	-	39 517	39 517
Dividends paid	-	-	(10 125)	(10 125)
Rights issue	97 403	52 597	-	150 000
Share issue expenses net of tax	-	(267)	-	(267)
Balance at end of year	322 403	82 196	155 126	559 725
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
Company				
2014				
Balance at beginning of year	225 000	29 866	116 184	371 050
Total comprehensive income	-	-	36 593	36 593
Dividends paid	-	-	(10 125)	(10 125)
Rights issue	97 403	52 597	-	150 000
Share issue expenses net of tax	-	(267)	-	(267)
Balance at end of year	322 403	82 196	142 652	547 251
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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Group		Company	
		2014	2013	2014	2013
		R'000	R'000	R'000	R'000
Cash flow from operating activities					
Cash generated from operations	27.1	59 705	44 842	49 764	34 278
Changes in working capital	27.2	(202 817)	137 517	(202 662)	138 472
Taxation paid	27.3	(15 850)	(11 978)	(15 850)	(11 978)
Dividends paid	27.4	(16 749)	(2 158)	(16 749)	(2 158)
Net cash (outflow)/inflow from operating activities		(175 711)	168 223	(185 497)	158 614
Cash flow from investing activities					
Purchase of property and equipment	27.5	(12 648)	(4 095)	(11 340)	(4 095)
Purchase of intangible assets	27.6	(4 260)	(1 846)	(4 260)	(1 846)
Purchase of investment securities		(10 075)	(78)	(10 075)	(78)
Proceeds from disposal of property and equipment		35	14	35	14
Dividend income	22	985	353	7 985	2 353
Decrease in investment in and amount due by subsidiary		-	-	1 478	7 609
Net cash (utilised)/generated in investing activities		(25 963)	(5 652)	(16 177)	3 957
Cash flow from financing activities					
(Repayments)/proceeds from shareholders mudaraba advance		(50 005)	50 005	(50 005)	50 005
Proceeds from rights issue		149 733	-	149 733	-
Net cash from financing activities		99 728	50 005	99 728	50 005
Net (decrease)/increase for the year		(101 946)	212 576	(101 946)	212 576
Cash and cash equivalents and other similar instruments at beginning of year		519 128	306 552	519 128	306 552
Cash and cash equivalents and other similar instruments at end of year	11	417 182	519 128	417 182	519 128