alBaraka

2018

INTEGRATED
ANNUAL REPORT

30 Years of Partnership Banking

Your Partner Bank

THE WAY WE DO BUSINESS

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

We have developed and adhere to a Code of Business Conduct, giving effect to the business culture of the bank and the actions of our members of staff. Principles contained in this 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 proactive 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 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 the discipline of avoiding private business relationships with customers and suppliers.

OUR 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.

CONTENTS

ABOUT THIS REPORT

AL BARAKA BANK IS PLEASED AND PROUD TO WELCOME YOU, OUR VALUED STAKEHOLDER, TO OUR 2018 INTEGRATED ANNUAL REPORT; A DOCUMENT WHICH REFLECTS THE BANK'S REPORTING PERIOD 01 JANUARY TO 31 DECEMBER 2018.

Our integrated annual report offers stakeholders an easily understood and concise oversight of both the bank's past performance and its future prospects.

It contains a set of key performance indicators, a business profile, a 10-year review of noteworthy financial information, its leadership, business footprint and joint statement by the chairman and chief executive, in conjunction with material matters with which it deals in terms of human resources, information technology, governance, sustainability, compliance and Shariah principles.

As a commercial banking institution and South Africa's only fully-fledged Islamic bank, our primary concern is to make a telling contribution towards the provision in South Africa of a fair and equitable financial system; a system which rewards effort and contributes to the development of the community.

Our objective in this regard is to satisfactorily meet the financial needs of communities across the country by conducting business ethically and 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.

In preparing this integrated annual report, we remain mindful of Al Baraka Bank's pre-determined reporting requirements, together with those prescribed by South Africa's financial regulating bodies. It should be stressed, however, that materiality is determined by our board of directors, in line with the wishes of shareholders and other strategic stakeholder groups.

We are continually aware of the guiding principles described in the South African Generally Accepted Accounting Principles, the Banks Act, Act No. 94 of 1990, the Companies Act, Act No. 71 of 2008, and the King Code of Governance for South Africa.

In so doing, our bank holds fast to an integrated thinking philosophy; a philosophy mirrored in the strategic direction we adopt in our quest to deliver against our Vision.

BANK DECLARATION

Al Baraka Bank's audit committee is responsible for appraising and submitting our integrated annual report and annual financial statements to the board of directors for review and approval.

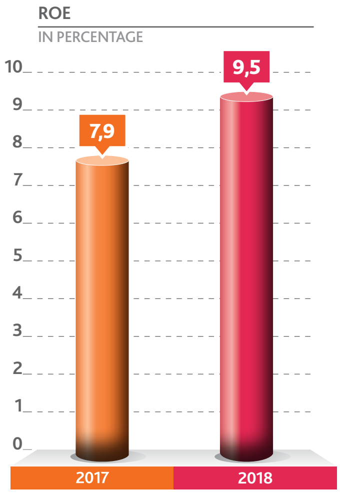
The board, having considered the report, is of the opinion that it satisfactorily addresses all relevant material issues and fairly represents the business and financial performance of the bank.

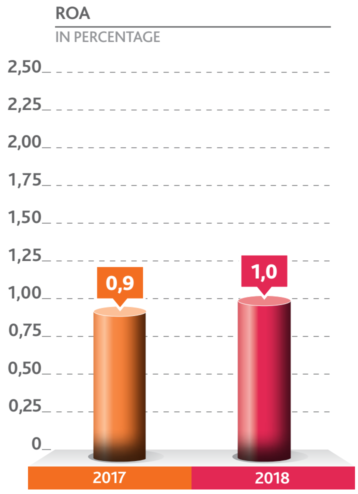
…………………………….
Adnan Ahmed Yousif
Chairman

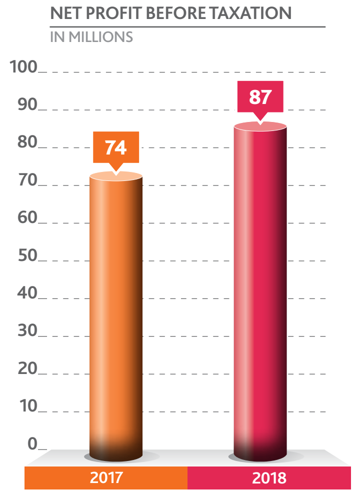
29 March 2019

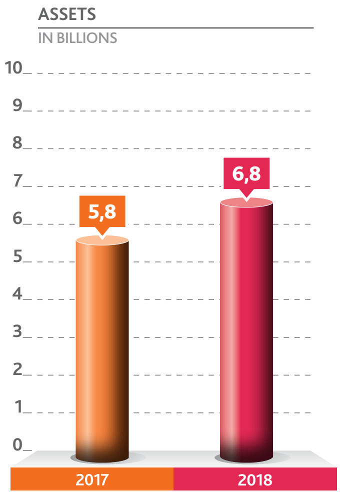
…………………………….
Shabir Chohan
Chief executive

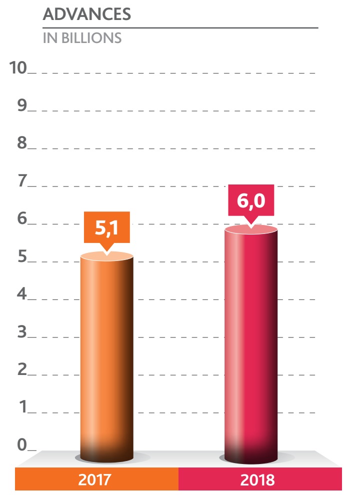
KEY PERFORMANCE INDICATORS

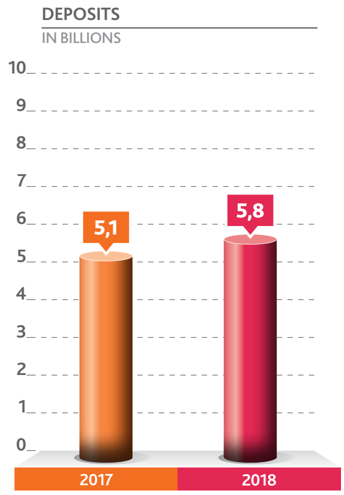


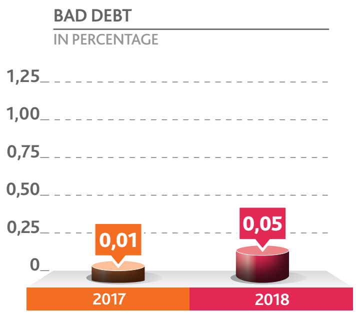


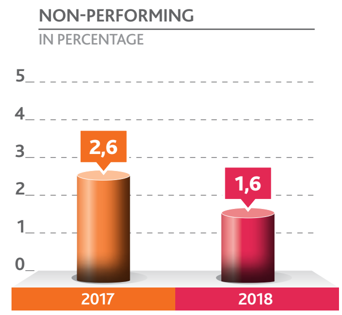












BUSINESS PROFILE

AL BARAKA BANKING GROUP - BAHRAIN

Al Baraka Bank in South Africa is a fully integrated subsidiary of Al Baraka Banking Group, a Bahrain-based financial institution and a world leader in Islamic banking.

Al Baraka Banking Group, which is listed on the Bahrain and Dubai financial exchanges, offers Shariah-compliant retail, corporate, treasury and investment banking and has a presence in no fewer than 17 countries through its comprehensive portfolio of subsidiary banking units and representative offices.

The group delivers a broad bouquet of financial products, customised to meet the evolving needs of clients, and works diligently to best meet the need for world-wide Islamic banking services. Al Baraka Banking Group's global footprint currently includes representation in Turkey, Jordan, Egypt, Algeria, Tunisia, Sudan, Bahrain, Pakistan, Lebanon, Syria, Iraq, Saudi Arabia, Indonesia, Libya, Morocco and, of course, South Africa.

Coming on the back of an outstanding growth trajectory, Al Baraka Banking Group's 2018 net income totalled US$217 million, while total assets amounted to US$23,4 billion.

International subsidiaries in the Al Baraka Banking Group stable 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, BTI Bank S.A. in Morocco and Al Baraka Banking Group representative offices in Indonesia and Libya, with a branch in Iraq, for which Al Baraka Türk Participation Bank is responsible.

AL BARAKA BANK - SOUTH AFRICA

Al Baraka Bank was established in South Africa in 1989 and provides communities across the country with a practical and sustainable alternative option to conventional banking models.

The bank's Shariah-compliant products and services are proving ever more appealing to Muslim and non-Muslim clients alike.

Following a faith-based system of financial management, the bank's guiding principles are drawn from Shariah, which upholds the ideal of profit-sharing, while prohibiting the payment or receiving of interest in any transaction.

Intent on maintaining personal contact with its clients, the bank remains committed to living the moral value of 'partnership,' striving always to establish and nurture long-term relationships with clients, thus enabling it to cultivate close and meaningful dealings and exchanges to the mutual benefit of both client and bank.

Based in Durban, Al Baraka Bank has a national business footprint, with seven retail branches, three corporate banking offices, a professional office and a regional office, affording its clients an array of financial products and services, as a commercial and fully-fledged Islamic banking institution.

As at 31 December 2018, Al Baraka Bank's primary shareholders included Bahrain-based Al Baraka Banking Group B.S.C. (64,51%), DCD Holdings (SA) (Pty) Ltd. (6,01%), DCD London and Mutual plc (6,60%), Johannesburg-based Timewest Investments (Pty) Ltd. (7,67%), Sedfin (Pty) Ltd. (3,33%) and Al Bogari (2,0%). Foreign and local shareholders constitute the balance.

The bank's board of directors is composed of both international and local business people, all having excellent individual business skills and outstanding collective knowledge of and expertise and experience in Islamic banking.

The bank also has in place both an internal Shariah Department and an independent Shariah Supervisory Board, whose roles are to ensure the bank's compliance with Shariah in all of its day-to-day business activities. In addition, Al Baraka Bank is a member of the authoritative international Accounting and Auditing Organisation for Islamic Financial Institutions.

Against this background, the bank's financial products are reviewed and audited on a regular basis, thus ensuring the ongoing maintenance of and adherence to absolute Shariah compliance.

The Al Baraka Banking Group has steadily increased its shareholding in its South African subsidiary, with the local business unit growing to become an integral part of the international group. Drawing on such international pedigree, Al Baraka Bank has developed an enviable reputation as a highly professional, effective and efficient financial services provider; one with the capacity to operate at the very cutting-edge of Islamic banking in South Africa.

The bank continues to enjoy an exceptional growth trajectory and is today an important contributor towards the meeting and beating of some of this country's most daunting socio-economic challenges; the result of its unwavering commitment to a range of Corporate Social Investment initiatives in three principal sectors, namely education, health and welfare.

TEN-YEAR REVIEW

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statement of Financial Position (Rm)										
Share capital	322	322	322	322	322	225	225	225	150	150
Shareholders' interest	713	662	627	601	560	381	362	347	233	228
Deposits from customers	5 844	5 078	4 634	4 426	4 230	3 941	3 322	2 881	2 571	2 130
Advances and other receivables	5 976	5 111	4 646	4 473	4 242	3 753	3 269	2 826	2 395	2 057
Total Assets	6 834	5 880	5 329	5 058	4 814	4 411	3 716	3 246	2 825	2 381
Statement of Comprehensive Income (Rm)										
Profit before taxation	87	74	58	76	55	40	34	26	17	18
Total comprehensive income for the year	65	51	41	56	40	29	25	16	11	18
Share Statistics (Cents)										
Basic and diluted earnings per share	203	158	128	171	154	129	112	77	74	125
Headline earnings per share	202	162	127	171	154	129	114	76	69	121
Dividend per share	55	50	50	45	45	45	45	45	45	45
Net asset value per share	2 201	2 052	1 943	1 866	1 736	1 692	1 608	1 541	1 551	1 522
Ratios (%)										
Return on average shareholders' interest	9,5	7,9	6,7	9,5	8,5	7,8	7,1	4,6	4,8	8,2
Return on average total assets	1,0	0,9	0,8	1,1	0,9	0,7	0,7	0,5	0,4	0,9
Shareholders' interest to total assets	10,4	11,3	11,8	11,9	11,6	8,6	9,7	10,7	8,2	9,6

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.

OUR
LEADERSHIP

AL BARAKA BANK EMPLOYS A UNITARY BOARD STRUCTURE COMPRISING:

6 INDEPENDENT NON-EXECUTIVE DIRECTORS;
2 NON-EXECUTIVE DIRECTORS; AND
3 EXECUTIVE DIRECTORS.

BOARD OF DIRECTORS:

During the course of the 2018 financial year, Al Baraka Bank's highly skilled and dedicated board of directors comprised the following members:

NON-EXECUTIVE DIRECTORS

AA Yousif (63) - Bahraini
Non-executive chairman

MBA
Joined the board in 2005
President and chief executive: Al Baraka Banking Group

INDEPENDENT NON-EXECUTIVE DIRECTORS

SA Randeree (56) - British
Vice chairman and lead independent director

BA (Hons), MBA
Joined the board in 2003
Board committee memberships
■ DAC □ BCC □ REMCO

F Kassim (60) - Sri Lankan
Independent non-executive director

EMP - Harvard Business School
Joined the board in 2006
Board committee memberships
□ DAC ■ SEC

A Lambat (60) - South African
Independent non-executive director

CA (SA)
Joined the board in 2006
Board committee memberships
■ RCMC □ BCC □ AC

MS Paruk (64) - South African
Independent non-executive director

CA (SA), F.Inst. D
Joined the board in 2004
Board committee memberships
■ BCC □ RCMC □ AC ■ REMCO

Adv. JMA Cane SC (52) - South African
Independent non-executive director

LLB, LLM
Joined the board in 2018
Board committee memberships
□ SEC □ DAC

YGH Suleman (61) - South African
Independent non-executive director

CA (SA), Chartered Director (SA)
Joined the board in 2016
Board committee memberships
■ AC □ REMCO

NON-INDEPENDENT, NON-EXECUTIVE DIRECTORS

MJD Courtiade (65) - French
Non-independent, non-executive director

CA (SA)
Joined the board in 2004
Board committee memberships
□ RCMC □ BCC

EXECUTIVE DIRECTORS

SAE Chohan (53) - South African
Chief executive

CA (SA)
Joined the board in 2004
Board committee memberships
□ BCC □ SEC

M Kaka (39) - South African
Chief operating officer

CA (SA)
Joined the board in 2015
Board committee memberships
□ BCC

A Ameed (37) - South African
Financial director

CA (SA)
Joined the board in 2014
Board committee memberships
□ RCMC

BOARD COMMITTEE LEGEND:

□ AC - Audit committee
□ RCMC - Risk and capital management committee
□ BCC - Board credit committee
□ DAC - Directors' affairs committee
□ REMCO - Remuneration committee
□ SEC - Social and ethics committee
■ Committee chairman

ADMINISTRATION:

Company secretary
CT Breeds BA LLB

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

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

Transfer secretaries
Computershare Investor Services (Pty) Ltd.
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

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 FOOTPRINT

BUSINESS AND POSTAL ADDRESS
HEAD OFFICE:
2 Kingsmead Boulevard, Kingsmead Office Park
Stalwart Simelane Street, Durban, 4001
PO Box 4395, Durban, 4000

REGIONAL OFFICE: GAUTENG
22 Cradock Avenue, Cradock Square, Office 01006
First Floor, Regent Place, Rosebank, Johannesburg, 2196
PO Box 42897, Fordsburg, 2033

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

GAUTENG
Corporate manager: A Ahmed
22 Cradock Avenue, Cradock Square, Office 01006
First Floor, Regent Place, Rosebank, Johannesburg, 2196
PO Box 42897, Fordsburg, 2033

CAPE TOWN
Manager: I Modack
Cnr. 42 Klipfontein and Belgravia Roads, Athlone, 7764
PO Box 228, Athlone, 7760

RETAIL BRANCHES:
GENERAL MANAGER: D DESAI
ASSISTANT GENERAL MANAGER: N SEEDAT

KINGSMEAD (DURBAN)
Sales manager: R Karodia
2 Kingsmead Boulevard, Kingsmead Office Park
Stalwart Simelane Street, Durban, 4001
PO Box 4395, Durban, 4000

OVERPORT (DURBAN)
Sales manager: Z Daniels
Shop 11, Gem Towers, 98 Overport Drive
Durban, 4001
PO Box 4395, Durban, 4000

FORDSBURG (JOHANNESBURG)
Sales manager: A Mia
32 Dolly Rathebe Road, Fordsburg, 2092
PO Box 42897, Fordsburg, 2033

LENASIA (JOHANNESBURG)
Branch administrator: S Khan
Shop 20, Signet Terrace, 82 Gemsbok Street
Extension 1, Lenasia, 1827
PO Box 2020, Lenasia, 1820

LAUDIUM (PRETORIA)
Sales manager: H Essop
Laudium Plaza, Cnr. 6th Avenue and Tangerine Street
Laudium, 0037
PO Box 13706, Laudium, 0037

ROSEBANK (JOHANNESBURG)
Senior banking officer: M Saloojee
Shop G20, The Zone, 117 Oxford Road, Rosebank, 2196
PO Box 42897, Fordsburg, 2033

ATHLONE (CAPE TOWN)
Manager: A Abrahams
Cnr. 42 Klipfontein and Belgravia Roads
Athlone, 7764
PO Box 228, Athlone, 7760

PROFESSIONAL OFFICE: GAUTENG
Relationship manager: M Dadabhay
22 Cradock Avenue, Cradock Square, Office 01006
First Floor, Regent Place, Rosebank, Johannesburg, 2196
PO Box 42897, Fordsburg, 2033

CUSTOMER SERVICES:
Call: 0860 225 786
Email: customerservices@albaraka.co.za
SMS: 43893
Web: www.albaraka.co.za
WhatsApp: +27 84 786 6563 (general banking information only)

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

FOLLOWING A DISMAL 2016 AND MARGINAL 2017 RECOVERY, HELPED BY AN END TO A SEVERE DROUGHT, 2018 BEGAN WITH GREATER OPTIMISM FOLLOWING MR CYRIL RAMAPHOSA'S ELECTION AS PRESIDENT OF THE ANC AND SUBSEQUENTLY PRESIDENT OF THE COUNTRY.

ECONOMIC OVERVIEW

He encouraged optimism by professing a commitment to rooting out corruption and embarked upon important international road-shows with a team of members drawn from Government, trade unions and the private sector.

Initiatives geared towards creating a closer relationship between the public and private sectors were seen to pave the way for progress in improving economic growth and employment. Unfortunately, this optimism was scuppered by the eruption of a psychologically damaging debate across the country regarding the merits or otherwise of land expropriation without compensation. This appeared to put the country's commitment to sanctity of property rights in jeopardy. Tensions within the mining sector between companies and workers surrounding the tenets of a proposed Mining Charter added to the atmosphere of policy uncertainty. Concerns surrounding the sources of intended increased funding of improvements in education and health-care exacerbated this spirit of uncertainty. Disappointment with a lack of sufficient progress in improving the running of State-Owned Enterprises and reducing their call on additional State funding was seen to threaten further increases in the country's public debt to GDP ratio, with damaging ramifications for future credit ratings' reviews. Renewed fears of electricity outages added to the damage to business confidence.

Together with ongoing policy uncertainty and an intensification of militant industrial action by trade unions, such fears prevented capital investment from increasing to the extent needed to lift the country's sustainable growth. From a practical perspective, consumers were also dealt a heavy blow by an increase in the VAT rate, an effective sharp increase in personal taxation and a surge in domestic fuel prices as oil prices rose to their highest in five years.

Fortunately, oil prices turned sharply lower late last year, paving the way for substantial fuel price relief over the festive season. There are signs, however, that global economic growth is starting to falter and this is set to jeopardise South Africa's ability to generate higher economic growth through exports. Together with polemical rhetoric in the run-up to the expected general election in May, business confidence is yet to revive. Hopes for improved growth and social cohesion now rest with anticipation that the elections may be followed by appropriate structural reforms that might encourage investment and higher economic growth. Nonetheless, there is no certainty that the election outcomes will necessarily end the factionalism and ideological divide within the ruling party that has prevented the Government from implementing its reform programme. Government's fiscal constraints remain severe, limiting scope for fiscal stimulus to improve growth. Fortunately, with the help of a fiercely independent central bank, inflationary pressures have been tempered and the fear of sharp increases in interest rates has been allayed. Encouragingly, there does not appear to be a head-long collapse in economic activity, although the economic environment is likely to continue plodding along at sub-optimal levels, insufficient to dent high unemployment levels and inequality.

AL BARAKA BANKING GROUP

Al Baraka Bank in South Africa is a subsidiary of one of the world's foremost Islamic banking institutions, Al Baraka Banking Group, which is based in Bahrain. The group is currently represented in 17 countries and operates no fewer than 700 branches globally.

Al Baraka Banking Group continued its growth path during the 2018 financial year in the face of continued slow global economic growth. Total assets exceeded US$23 billion in 2018, which mirrors the group's aspirations in terms of executing its current expansionist strategy.

During 2018, Al Baraka Banking Group was named 'Best Islamic Financial Institution in Africa' for the sixth consecutive year. The award was conferred by influential USA-based Global Finance magazine at its 2018 awards event in Indonesia, staged during the IMF World Bank annual meetings. The group was honoured for the prominent role it plays in the Islamic banking sector, its ability to achieve consistent growth and the meeting of professional standards in terms of its quality of products and services, as well as originality and innovation in customer service, banking operations, geographic reach, profitability and robustness of financial position.

Banking is viewed by Al Baraka Banking Group as integral to society and it believes it has a responsibility to ensure the effective preservation of resources placed in the care of bankers by clients around the world. It remains wholly-committed to its strict adherence to Shariah and works tirelessly to give effect to the financial success of both its business and private clients, thus contributing meaningfully to the advancement of society globally.

FINANCIAL PERFORMANCE: SOUTH AFRICAN SUBSIDIARY

The group's South African subsidiary, with its head office in Durban and a growing national facilities network, delivered an impressive set of financial results, together with a number of ground-breaking business development achievements in 2018.

Our 2018 net income before tax totalled R87 million, an increase of 17% over the previous reporting period's R74,1 million, an especially pleasing result taking into account South Africa's prevailing low growth levels. Total assets amounted to R6,8 billion, up 17% on 2017's R5,8 billion.

Our ongoing strategy of pragmatism continued paying dividends, with the achievement of advances growth of 5,6%, or R256 million in 2018, against R529 million in 2017.

Critically, the 2018 reporting period witnessed the third and final phase of our Sukuk (Islamic bond), which became fully subscribed, mobilising a total of R200 million. Introduced in 2016, Sukuk uptake proved pedestrian - raising R35 million in its first year and just R10 million in 2017 - the consequence of the unfamiliarity in this country of people with the concept. With more becoming known about Sukuk as a high-yield investment, interest accelerated dramatically in 2018, resulting in the need to restrict allocations.

The Tier 2 Capital Sukuk - the first to be issued by a South African financial institution - has proved an efficient mechanism for the management of our capital requirements and capacitates the bank now to target a broader market.

We are exceptionally pleased with the appeal the Sukuk has generated and are most grateful to the investors who have supported this investment vehicle. Our goal now is to grow the South African market for the mutual benefit of all our stakeholders, inclusive of prospective new clients.

So successful was this first issuance, that we plan to issue a second Sukuk during the course of 2019, with a view to raising further funding. We are confident that with the public's new-found knowledge of Sukuk, uptake will be robust, given its potential - as an attractive investment - for encouragingly higher rates of return

to holders. Similarly, the National Minister of Finance alluded, in his 2018 Budget Speech, to the fact that Government was giving consideration to the issuance of a Domestic Islamic Bond. We wait in anticipation for further information in this regard, in view of the impact such an issuance could have on our bank with regard to the effective use of surplus cash.

The buoyancy of the retail foreign exchange market in 2017 carried over into the 2018 financial year, with demand for our foreign exchange services again achieving unprecedented levels by international travellers. Interest in our service offering continues being directed by our 0% commission proposition, competitive rates and exceptional service. There was also encouraging uptake of our Shariah-compliant Forward Exchange Cover by clients seeking to hedge against foreign currency risk through the purchase of forward cover.

Equally encouraging was the high level of interest displayed by clients in our new Premium Plus Account, introduced to our product bouquet in 2017. It was anticipated that the creation of this product would spur increased deposits with the bank. We are gratified that our belief in the account has been justified.

January 2018 saw our implementation of a new International Accounting Standard, the success of which is testament to our bank's proactive credit procedures and the considerable investment we made in preparing for the execution of International Financial Reporting Standard (IFRS) 9: Financial Instruments. The impact of this new standard was immediately evident and led to a reduction in the bank's historical provisions.

Challenges identified during the reporting period included the need to effectively address our unacceptably high cost income ratio and the low percentage of non-funding income to total income. These key ratios are a matter of concern and were accordingly addressed through the implementation, during the course of the year, of a series of specialised corrective projects.

Money laundering remains a global problem and one with which financial institutions continue to grapple. With the April 2019 implementation of amendments to the Financial Intelligence Centre Act, 38 of 2001, which will fundamentally change anti-money laundering legislation, we applied considerable resources in 2018 towards further tightening our own anti-money laundering capabilities in preparation for the advent of the new legislation.

It is noted with concern that given the myriad of laws and regulations applicable to the financial services industry, the cost of resources required by the bank to ensure compliance is considerable. So seriously do we take the need for such measures, however, that senior management has invested, and will continue investing, large amounts of time and effort to ensure absolute compliance to all laws and regulations.

DIVIDEND

Al Baraka Bank is pleased to disclose that for the 13th consecutive year, we have declared a dividend for the benefit of our shareholders. In this regard, the board-approved dividend for the 2018 financial year was 55 cents per share, against 50 cents per share the previous year.

SIGNIFICANT ACHIEVEMENTS

From an operational perspective, 2018 marked a number of significant achievements, all geared towards the improvement of the overall client banking experience.

Hard on the heels of the 2017 phase one upgrade of our Athlone, Cape Town, Branch came the implementation during 2018 of phase two, the completion of which has completely transformed this facility in the face of exceptional growth in demand for our services here.

Indeed, we have doubled our client base in Cape Town during the past four years and our major facility upgrade resulted in the October 2018 launch of our Western Cape Regional Office, a move which almost doubled the outlet's size and brought on-stream additional parking for the benefit of clients. The upgraded facility today comprises our corporate office - delivering banking solutions to our medium to large corporate client base in Cape Town and environs - and a full retail branch, offering investment, transactional and international banking, as well as finance and wealth management services.

Gauteng, the economic heartland of South Africa, has also shown considerable growth, prompting us to open a fully-resourced branch in Rosebank - previously the site of our dedicated foreign exchange bureau. The move also involved the upgrade of our regional office creating the considerably upgraded Rosebank outlet, a change which was met with instant acclaim by clients.

This radically improved operation takes into account Gauteng's economic prominence and growth. We recognised the need to provide our complete products and services offering at the very heart of this economic hub, delivering services for, especially - though not exclusively - the burgeoning professional sector here.

A further achievement in this respect was the introduction in 2018 of a new ATM in Rosebank, bringing to nine the number of dedicated Al Baraka Bank ATMs strategically located around the country. The reporting period also brought with it the implementation at all seven retail branches of a new and innovative queuing system; one which focuses close attention on serving clients in a timely manner and which has already appreciably improved the client experience.

In the further quest to impact positively on the banking experience, vast resources were applied to the development of a new core banking system for the bank, embracing the latest technologies in a concerted effort to better develop and enhance efficiencies bank-wide, to the advantage of our clients. It is envisaged that the new core banking system will be introduced during the latter stages of the 2019 financial year.

It is our contention that a healthy workforce is a more productive workforce and that greater productivity enhances the delivery of service excellence. We introduced a 'World-wide Tour' wellness programme during 2018. The purpose of this bank-wide programme was to inculcate in our members of staff the adoption of a healthy lifestyle, infusing a voluntary exercise regime whereby individuals are able to log virtual kilometres run, walked or cycled against distances to the various other Al Baraka Banking Group international subsidiaries.

BOARD AND EXECUTIVE MOVEMENTS

We bade farewell to Mr Iqbal Kunene, a non-executive director since 2015, who retired in 2018.

Mr Kunene joined our board in 2015 having played a significant and influential role in South Africa's retail banking sector. He brought to the board a wealth of financial sector experience and knowledge and his invaluable insights will be sorely missed.

We, on behalf of our board colleagues, take this opportunity to sincerely thank Mr Kunene for the contribution he has made to the successful growth and development of the bank during his tenure. We wish him well in his deserved retirement.

Pleasingly, we were also delighted to welcome to the board leading Johannesburg-based Advocate, Mrs Jenny Cane SC, who became our financial institution's first female director. Her appointment in April 2018 as an independent non-executive director, was the bank's second senior counsel board appointment and was in line with a strategic decision to attract and retain the best available legal talent

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

at board level.

Mrs Cane has been a member of the Johannesburg Bar for more than 24 years and was its first female leader in 2016. It is our belief that as a pre-eminent member of South Africa's legal fraternity, she brings with her the credentials to make a most meaningful contribution to our board's decision-making processes, given her exceptional legal knowledge and tax law experience.

At executive level, the bank appointed Mr Ebrahim Hassan to the position of Acting Chief Risk Executive. The previous incumbent, Mr Jacques Courtiade, retired at the end of March 2018, and currently serves on the board as a non-independent, non-executive director.

Mr Hassan was the bank's former general manager: credit, a position he held with distinction for more than 10 years before taking up his new Acting Chief Risk Executive appointment in 2018. We regard this key function as a component of our second line of defence and we wish Mr Hassan every success in this position going forward.

We also welcome Mr Zahid Hassan Fakey as an independent non-executive board member, with effect from 01 March 2019.

FUTURE PROSPECTS

With regard to the future, 2019 marks Al Baraka Bank's 30th anniversary; an achievement of which we are immensely proud and which is hugely fulfilling.

Launched in Durban in 1989, Al Baraka Bank rapidly established itself as the pioneer of Islamic banking in this country and is, today, South Africa's only fully-fledged Islamic bank. We can ascribe our 30-year growth curve to the market's confidence in adopting Islamic banking as a viable and sustainable alternative to the conventional banking model.

This 30-year business milestone is a historic moment in the history of Al Baraka Bank. The bank's founders boldly pursued their goal of becoming pioneers of Islamic banking in South Africa and their vision 30 years ago is to be greatly applauded today, as is the exceptional support the community has displayed and continues to display in increasingly selecting to utilise our Shariah-compliant banking services.

Over the years, we have worked to introduce a full range of financial products and services. We are committed to continuing developing new products and embracing technological advancements in order to better meet client demand going forward, thus further broadening our extensive commercial product offering.

In this regard, we are excited about the strides we have made in developing yet another advanced product. Our Ijara (leasing) product offers the Shariah-compliant provision of leases to clients for both movable and immovable assets, with the option that clients may or may not own the leased assets at the end of their respective lease terms, in line with the agreement signed between the parties.

APPRECIATION

Lastly, the successes Al Baraka Bank has achieved in past years and, more especially, the 2018 financial year, may be attributed largely to our various stakeholder groups and, not least, our highly valued shareholders and clients.

We are most grateful to Al Baraka Banking Group for its unswerving support for and guidance of our business. The international expertise from which we benefit assists greatly in setting Al Baraka Bank apart, enabling us to effectively implement and execute best practice ideals, bank-wide.

Our gratitude is also extended to all the members of the board, past and present, whose business acumen, understanding of Islamic banking and collective wisdom has given rise to the continued growth of our bank. The business prowess, strategic thinking and clear decision-making attributes they bring to the bank have proved invaluable and are, therefore, greatly appreciated.

Equally, we must take this opportunity to thank most sincerely members of the executive team, senior management and staff for their dedication to the business of the bank and their commitment to delivering against the service excellence ideal.

Last, but by no means least, we are pleased to proffer our most grateful thanks to both our shareholders and clients, without whose ongoing and growing support Al Baraka Bank would not have become the sustainable business entity it is today. On behalf of the board, we would assure you of our continued endeavours on your behalf and for the benefit of society at large.

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

Adnan Ahmed Yousif
Chairman

Shabir Chohan
Chief executive

29 March 2019

HUMAN RESOURCES REPORT

THE FOCUS FOR THE BANK'S HUMAN RESOURCES STRATEGY FOR THE 2018-2020 PERIOD IS UNDERPINNED BY A TRANSFORMATION AND ORGANISATIONAL DEVELOPMENT THEME.

The evolution of Al Baraka Bank's systems, processes and structures is central to enhancing customer service excellence with regard to our bespoke products and services in the market.

This transformational process is based on the strong foundation of the organisation's core value system and it is with this in mind that we drive our organisation towards both the enhancement of the customer experience and employee satisfaction.

Our goal is to realise this vision by achieving streamlined processes and efficiencies through the introduction of technological interventions and organisational restructuring.

As the bank experiences growing pains associated with the metamorphosis phase, our human resources change management strategies are playing a pivotal role in maintaining a high performance culture, whilst simultaneously ensuring that our intellectual capital remains on-board and in a state of readiness to 'take full flight,' once the transformational process has taken effect.

TALENT MANAGEMENT

In preparation for the transformation which will take us to 2020 and beyond, it has become imperative that we revisit our 'People Strategy,' ensuring its alignment to the overall business strategy.

Employee engagement at every level of the employee life-cycle is regarded as the golden thread running through the People Strategy, as we are cognisant of the fact that our employees are our most valuable resource.

Our intention is to improve the organisational climate within which we operate in order to further promote employee satisfaction and retention, thus ensuring that our employees are actively engaged in the quest to take the organisation to new heights.

PLANNING FOR SUCCESSION

Succession planning for a staff compliment of some 320 employees operating within lean departmental structures certainly presents a challenge.

This is addressed by multi-skilling in order to become multi-functional, thereby enabling our employees to operate seamlessly across a number of disciplines.

Al Baraka Bank prides itself in employing young, ambitious and highly-qualified employees who are eager to move to the next level of work.

The average age profile of our workforce is 33 years, of which more than 50% are female. The bank has served as an exceptional incubator for numerous young, professionally-qualified employees, enabling them to be groomed, developed and promoted within the organisation.

Succession planning at senior management and monitoring of critical scarce skills levels are tracked through development plans in order to ensure continuity in the event of natural attrition.

Building a leadership pipeline through funded bursaries towards degree qualifications and international executive development programmes continues to prove successful for the bank.

TALENT ACQUISITION

Al Baraka Bank adopts a stringent recruitment and selection process, so as to ensure that we not only recruit employees with the relevant skills and experience, but who are also a culture fit with the organisation's values and ethos. As with other organisations active in the finance industry sector, the attraction of scarce skills remains a challenge.

However, Al Baraka Bank has positioned itself in such a way as to source talent that is organically grown from within. This strategy is further amplified through our targeted implementation of internships and graduate programmes.

Al Baraka Bank is becoming increasingly recognised as an employer of choice in the market and, therefore, we are able to develop a strong data base of high-calibre applicants keen to explore career opportunities within our organisation.

Many prospective employees view Al Baraka Bank as a stable organisation which is growing and displays a high emphasis on staff development.

TRAINING FOR EXCELLENCE

The training strategy for 2018-2020 centres on systems, regulatory requirements, products and services, customer service and leadership development.

The introduction of our new core banking system in 2020 will result in focused bank-wide end-user training.

In keeping with the strategy of enhancing technology in order to bring about greater efficiency, the bank is keen to implement e-learning, which will facilitate empowerment in terms of the education and development of our employees.

Notwithstanding the implementation of technology geared to bring about self-directed training, a culture of ongoing learning is inculcated in our staff through a blended approach of classroom training and on-the-job learning.

It is the philosophy of the bank that each employee should receive the required training in order to ensure continuous professional development within their careers.

MANAGING FOR IMPROVED PERFORMANCE

Managing a high-performance culture that is results-driven remains an important focus area for the bank. The implementation of performance reward systems and the recognition of high performers are just two of the strategies implemented by the bank to motivate staff to meet and exceed performance standards.

The effective implementation of our performance appraisal process is also aimed at improving performance through remedial and re-training interventions, in order to ensure that performance is improved to desired standards.

ORGANISATIONAL CHANGE

The organisation's heightened awareness of the Fourth Industrial Revolution has resulted in the exploration of robotics, technological advancements to systems and processes, as well as the centralisation of operations.

These significant changes call for effective change management strategies, ensuring that our employees are involved and fully informed about developments within the organisation.

Change management road-shows and team-building sessions with employees have been positively received, as we continue working to ensure that all our members of staff are ready to embrace changes within the organisation.

CELEBRATING OUR SUCCESS

The bank's employee recognition awards ceremony is a significant annual event and is rightly regarded as a momentous occasion for all members of staff.

We realise that celebrating and recognising employee performance achievements is vital to the upliftment of employee morale and clearly contributes towards the retention of talent.

An enhanced retention strategy, with the emphasis on reward and recognition, is therefore encapsulated in the overarching 'People Strategy' of the bank.

WORKFORCE PROFILE AS AT 31 DECEMBER 2018

	AIC*		White		Total		Total
	Male	Female	Male	Female	Male	Female	
Top and senior management	3	0	0	0	3	0	3
Professionally qualified and experienced specialists in mid-management	27	11	4	2	31	13	44
Skilled technical and academically qualified workers, junior management and supervisors	64	80	2	1	66	81	147
Semi-skilled and discretionary decision-making	28	75	1	0	29	75	104
Unskilled and defined decision-making	1	7	0	0	1	7	8
Total	**123**	**173**	**7**	**3**	**130**	**176**	**306**

AIC* = AFRICAN, INDIAN AND COLOURED

INFORMATION TECHNOLOGY REPORT

THE PERIOD UNDER REVIEW HAS SEEN A STRONG FOCUS ON TECHNOLOGY-DRIVEN STRATEGIES, GIVEN THE HIGH POTENTIAL TO INFLUENCE COMPETITIVE ADVANTAGE, OPERATING EFFICIENCIES, COSTS, AGILITY, SECURITY AND MORE. IN LINE WITH GROUP DIGITALISATION OBJECTIVES, THE BANK HAS INITIATED PLANS TO ASSESS OPPORTUNITIES, CAPABILITIES AND SYNERGIES THAT MAY ADD MEASURABLE VALUE TO THE ORGANISATION AND ITS STAKEHOLDERS.

Cyber security, data privacy and governance have remained amongst the top agenda items as the persistence and sophistication of threats, along with disruptive technologies, continue to drive risk mitigation efforts, such as user awareness, hardening of security layers and enhanced preventative measures.

A key activity that impacts organisational change, is Project 2020 to replace Core Banking Systems, and this is targeted for completion by the end of 2019. The project is expected to introduce substantial efficiencies, based on the native system capabilities, including enhanced end-user experiences, processing performance levels, data encryption and redundancy features. Additionally, opportunities have been presented to rationalise systems and consider solutions, such as low-code development platforms for both internal and external customer interfaces.

This positions the bank well from an agility perspective, with enabling technologies to support an omni-channel banking experience bearing a host of secure self-service features. Considerable ground-work on business analysis has been undertaken with dedicated project and business resources, supported by group IT and participating subsidiaries. For the ensuing period, the key focus will be the build, integration, migration, training, testing and the fine-tuning of systems.

Noteworthy digital solutions implemented during the period include three in-house developed robots to automate repetitive, conditional processes. Along with improving the customer experience and reducing manual interventions, the robots promote internal efficiencies by operating in an unattended state, thus freeing staff capacity to focus on quality turn-around and other business needs. The use-case for robotics within the business has gained traction with developments being encouraged where similar efficiencies may be introduced. Forex Online Check-in was implemented during the latter part of the year in an effort to reduce in-branch processing and customer waiting times and our new, responsive and mobile-friendly website, www.albaraka.co.za, has been positively benchmarked in line with some of the leading banks. Digitalisation opportunities continue to be explored as part of existing and planned projects in alignment with group strategies.

Cyber Security has been identified as one of the top risks and to enhance its security posture the bank has adopted, in addition to essential security layers, certain measures, inclusive of a draft cyber-security framework which is in line with industry best practice. It has also outsourced security monitoring services for the 24x7 visibility of critical security end-points, and security awareness e-learning programmes. Threat advisory services at group level have also been introduced.

Ongoing improvement of cyber resilience capabilities and access to threat intelligence resources is vital to minimising risks and in this regard the bank is represented at the South African Banking Risk Information Centre (SABRIC), which is involved in industry-wide initiatives, including the drafting of position papers, identification of key risks, analysing cyber security events, incident responses and developing frameworks. SABRIC collaborates with local and global threat intelligence agencies and organisations, such as FS-ISAC and cyber security hubs.

Considering the possibility of a business disruption, disaster recovery and continuity plans will take effect for business-critical operations. This includes access to an off-site High Availability Data Centre in Gauteng and four other cold-recovery Data Centres around the country. Additionally, cyber liability insurance is in place, with cyber extortion and third party outsourced service provider cover.

Customer-centricity, technology risk, cyber security and corporate governance are at the cornerstone of business and IT strategies. Business agility, through the use of new and emergent technologies, will continue to remain a key enabler for competitive advantage and the implementation of the new core banking system environment will assist in setting a renewed foundation for the foreseeable future. Technology trends predict the advancement of solutions within an intelligent digital mesh[1] and while quantum computing, augmented analytics and autonomous things may be out of immediate reach, access to other emerging concepts, such as AI-driven development, digital twins, digital ethics and privacy, are not too distant.

Corporate governance and regulatory frameworks are equally affected by disruption in a positive way that is encouraging industry-wide collaboration and conversation. The bank continues to adopt a risk-based approach, being mindful of governance and regulatory tolerances.

[1] *Gartner - Top 10 Strategic Technologies for 2019*

CORPORATE GOVERNANCE REPORT

AL BARAKA BANK'S JOURNEY OF CORPORATE GOVERNANCE IS FOUNDED ON ETHICAL AND EFFECTIVE LEADERSHIP AND SOUND CORPORATE GOVERNANCE REMAINS AN INTEGRAL PART OF THE WAY IN WHICH AL BARAKA BANK OPERATES.

During the course of 2018, the bank sought to give full effect to the principles of the King IV Report on Corporate Governance, which defines sound governance as the exercise of ethical and effective leadership by a governing body, being the board of directors, towards the achievement of its desired governance outcomes.

To this end, the board of directors strives to ensure:

- The creation of an ethical culture throughout the bank and its operations;
- That the bank's financial performance is aligned with board-approved strategy;
- That the bank functions within an effective control environment; and
- That the bank is regarded as a legitimate and credible organisation by all of its stakeholders.

2018 GOVERNANCE OVERVIEW

The development of a sound governance framework, through the implementation of the principles embodied in King IV, has enabled the bank during the course of 2018 to perform at its optimum, remain sustainable and deliver on its corporate obligations and regulatory requirements. Given the nature of the governance challenges throughout the country, the board strives to ensure the creation of an ethical foundation which promotes responsibility, accountability, fairness and transparency.

The board is satisfied with the bank's application of King IV, having conducted an in-depth review of this process. Arising from this review, the board requested the Remuneration Committee to revisit Principle 14, dealing with remuneration governance.

ROLE AND FUNCTION OF THE BOARD

The board is ultimately responsible for ensuring the implementation of sound corporate governance for Al Baraka Bank and is further responsible for approving the bank's long and short-term strategies.

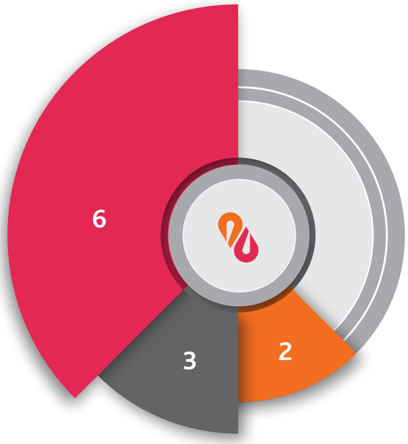
During the course of 2018, the board monitored the bank's progress against its strategic objectives, which comprised the following:

- The increase of returns to shareholders and depositors;
- The development of innovative products;
- The enhancement of technology and internal processes; and
- The improvement of customer service and staff satisfaction.

In addition, the board acknowledged that its key performance indicator lay in the positive performance of the bank, through the creation of sustainable value for all its stakeholders, whilst remaining true to the underlying core values of the bank.

The board, mindful of this responsibility, ensured that Al Baraka Bank operated as a responsible corporate citizen during the review period. The board's role and function is set out under a comprehensively-written charter, which is subject to regular review, and complies with the provisions of the Companies Act and the Banks Act, as well as the bank's Memorandum of Incorporation.

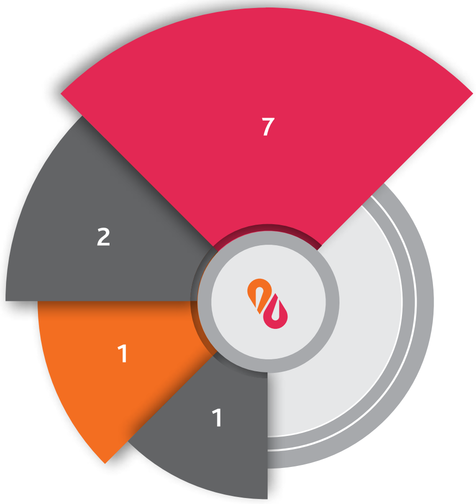
The board met on four occasions during 2018 and once separately with the Prudential Authority, which meeting formed part of the Prudential Authority's regulatory programme.



6 INDEPENDENT NON-EXECUTIVE DIRECTORS
2 NON-EXECUTIVE DIRECTORS
3 EXECUTIVE DIRECTORS

Al Baraka Bank has a unitary board structure comprising 11 directors. In terms of King IV principles, six of the directors are classified as independent non-executive directors, whilst two are classified as non-executive directors, with the remainder of the directors being executive directors. The executive directors consist of the Chief Executive, the Chief Operating Officer and the Financial Director. The board, through a process of ongoing review, enjoys a broad range of skills, experience, diversity and industry knowledge. The different skill sets and attributes which the directors bring to the board enables robust decision-making and strategy setting, as well as ensuring the appropriate balance of power and authority such that no one individual has unfettered decision-making powers.

DIRECTOR SKILLS AND QUALIFICATIONS



7 CA (SA)
2 MBA
1 LLB/LLM
1 EXEC. MANAGEMENT PROGRAMME (HARVARD)

The roles of the chairman and chief executive are well-defined and separated. The chairman of the board, Mr AA Yousif, is classified as being 'non-executive' by virtue of the fact that he holds the position of president and chief executive of the Al Baraka Banking Group.

The board considers Mr Yousif to be the best person to fulfil the role of chairman of Al Baraka Bank, given his extensive knowledge of and experience in the banking industry as a whole. As the chairman is not classified as an independent non-executive director, the position of lead independent director was created and was held by Mr SA Randeree during the period under review.

The board, through the directors' affairs committee, performs an annual review of the composition of the board and the respective board committees, assessing the skills set of the current directors serving on the board. This process focuses on ensuring that, ultimately, the board has the requisite skills for transitioning into the years ahead, especially within the banking sector.

Having conducted its review of the board and board committee composition, the board supported the recommendations made by the directors' affairs committee and appointed two new directors in 2018, namely Adv. JMA Cane SC as an independent non-executive director and Mr MJD Courtiade as a non-independent, non-executive director. Mr Courtiade previously occupied the position of chief risk executive until his retirement on 31 March 2018.

Adv. Cane SC brings with her a wealth of experience from the legal profession and will undoubtedly play a key role in enhancing and building on the governance structures within Al Baraka Bank, especially from a legal perspective.

During the course of 2018 the bank bade farewell to Mr NJ Kunene, who retired from the board.

FUTURE PLANNING

The board fully embraces the recommendation of King IV with regard to succession planning. This process is considered important in the life of the board and is used to introduce directors with new skills, expertise and ideas, all of which are required for the ongoing evolution of the board.

The appointment of directors is both a formal and transparent process and is conducted in terms of prevailing legislative and regulatory requirements, which specifically includes the Banks Act and the Companies Act.

During the review period, the Prudential Authority of the Reserve Bank released Directive 4/2018, which addresses matters related to the promotion of sound corporate governance and, in particular, in relation to the appointment of directors and executive officers. The Directive significantly raises the corporate governance bar for banks and the board has positively embraced the Directive. The board is committed to the implementation of the requirements of the Directive and has, through the directors' affairs committee, conducted a comprehensive review of the Directive. As part of its ongoing governance-related responsibilities, the board will monitor the process of implementation, in order to ensure full compliance with the Directive.

Given the implementation of the bank's new core banking system, which is planned for 2019, and following the release of Directive 4/2018 by the Prudential Authority, the bank will be looking to appoint a director who possesses strategic IT skills as part of the board's holistic succession plan.

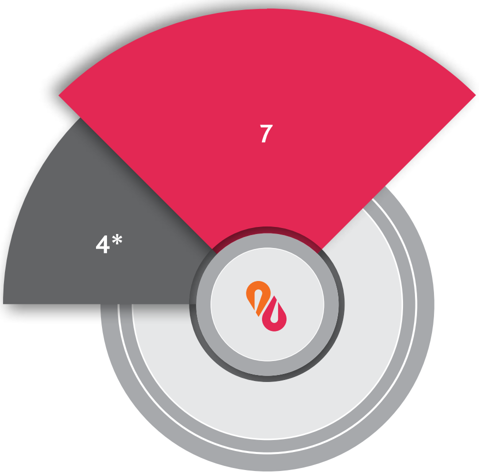
ASSESSMENT OF INDEPENDENCE

The independence of directors is reviewed annually by the directors' affairs committee for approval by the board. In terms of the recommended practice of King IV, the board is required to assess the independence of those independent directors who have served on the board for more than nine years. The independent status of such directors is subject to rigorous debate, ensuring that there are no relationships or circumstances which could have a negative impact on their independence.

The directors' affairs committee considered the independence of those director's who have served for longer than nine years and after a robust review, declared that, notwithstanding their respective lengths of service on the board, these directors continue to meet the requirements of an independent director.

As indicated earlier in the report, Directive 4/2018 will have a significant impact on the criteria relating to the independence of directors, more especially in that non-executive directors who have served for a period of nine years or more may no longer be classified as independent.

BOARD TENURE



4* LESS THAN NINE YEARS
7 GREATER THAN NINE YEARS

** Mr Kunene retired from the board in June 2018; Adv. Cane SC and Mr Courtiade were appointed in April 2018 as non-executive directors*

DIRECTOR DEVELOPMENT AND INDUCTION

The board supports and encourages on-going director development, which is designed to foster improved governance practices, not only within the board, but also throughout the organisation. Directors are kept abreast of developments pertaining to legislation and regulations which impact on the bank's business framework. Where appropriate, directors are encouraged to attend external training courses, the costs of which are borne by the bank. The concept of ongoing director development is referred to in both King IV and Directive 4/2018 and remains a key objective within the board.

During the course of 2018, the board was formally briefed with regard to the Financial Intelligence Centre Amendment Act, as well as being provided with an overview of the Governance of Ethics by the Ethics Institute of South Africa. Following her appointment to the board, Adv. Cane SC attended a director induction programme and was introduced to key members of management and provided with an extensive overview of the business operations of the bank.

Given the onerous demands placed on directors, coupled with their increasing legal responsibilities, the identification and undertaking of relevant director training will assume an even greater focus during the course of the forthcoming financial year.

PERFORMANCE EVALUATIONS

Board performance evaluations remain an integral part of assessing the performance and effectiveness of the board, its committees, its chairman and its individual members, along with the chief executive and company secretary.

CORPORATE GOVERNANCE REPORT (CONTINUED)

In line with King IV recommendations, the 2017 performance evaluations were facilitated for the first time by an external service provider, the results of which were shared with all directors. It was pleasing to note that the evaluations confirmed that the board was operating at a professional level and displayed the highest levels of ethical behaviour and integrity. Furthermore, it was found that the board displays a strong sense of effectiveness and thorough understanding of the financial and banking industry. The board once again utilised the services of an external service provider for the 2018 performance evaluations, the outcomes of which will become available during the first quarter of 2019.

BOARD AND COMMITTEE ATTENDANCE

The accompanying table records the attendance of the board and board committee members in respect of board and board committee meetings held in 2018:

Name of Director/Member	Board	Audit	Risk and capital management	Board credit	Directors' affairs	Remuneration	Social and ethics
A.A. Yousif [1]	4/4	-	-	-	-	-	-
S.A. Randeree [2]	4/4	-	-	4/4	3/3 [1]	4/4	-
F. Kassim	4/4	-	-	-	2/3	-	2/2 [1]
A. Lambat	4/4	5/5	4/4 [1]	-	-	-	-
N. Kunene [3]	2/4	-	-	-	1/3	-	1/2
Y.G.H. Suleman	4/4	5/5 [1]	-	-	-	4/4	-
Adv. J M A Cane [4]	3/4	-	-	-	2/3	-	1/2
M.S. Paruk	4/4	5/5	4/4	4/4 [1]	-	4/4 [1]	-
M.J.D. Courtiade [5]	4/4	-	4/4	4/4	-	-	-
S.A.E. Chohan	4/4	-	-	4/4	-	-	2/2
A. Ameed	4/4	-	3/4 [10]	1/4 [8]	-	-	-
M. Kaka	4/4	-	-	3/4 [9]	-	-	-
E.M. Hassan [6]	-	-	4/4	4/4	-	-	-
Y. Nakhooda	-	-	4/4 [7]	-	-	-	-

1 = Chairman
2 = Vice chairman and lead independent director for 2018
3 = Retired in June 2018
4 = Appointed independent, non-executive director in April 2018
5 = Appointed non-executive director in April 2018
6 = Acting chief risk executive
7 = Risk manager (retired on 31 December 2018)
8 = No longer member of BCC as from April 2018
9 = Appointed member of BCC as from April 2018
10 = Appointed member of RCMC as from March 2018

BOARD COMMITTEES

Recognising the board's responsibility for the overall performance of the bank, the board has appointed six standing committees to assist it to meet its objectives. These include the:

- Audit committee;
- Risk and capital management committee;
- Board credit committee;
- Directors' affairs committee;
- Remuneration committee; and
- Social and ethics committee.

Each standing board committee is regulated by a regularly-reviewed written charter, which record the rights, powers, duties and functions of the respective board committees.

The bank's governance framework also includes various management committees, whose objectives are to support the board and board committees in the execution of their responsibilities.

Management committees include the:

- Executive management committee;
- Executive credit committee;
- Management risk committee;
- Assets and liabilities committee;
- FICA EXCO;
- IT steering committee; and
- Crisis management committee.

The board has established six committees, each of which operates in terms of a mandate to assist the board in meeting its strategically defined objectives.

In addition to the board committees, there are several management committees which have been established as part of the bank's governance structure.

The management committees also support the board and the board committees in giving effect to their objectives.

A property committee has been established with the specific mandate of facilitating the development of the bank's property within the Kingsmead Office Park complex. By its very nature, this committee will cease to exist upon the successful fulfilment of its mandate.

The board committees give effect to their functions in terms of their respective charters, with their key terms of reference being as follows:

AUDIT COMMITTEE

Banking legislation requires all banks to establish an audit committee which is mandated to oversee internal controls throughout the bank, internal and external audit functions, compliance and financial reporting and control.

A summary of some of the key terms of reference of the audit committee includes, inter alia:

- Approving and thereafter recommending the interim and annual financial statements to the board for approval;
- Ensuring that an appropriate process of combined assurance is applied throughout the bank and that this adequately identifies the significant risks facing the bank;
- Evaluating the independent assessment of the external auditors and recommending their appointment for shareholder approval at the bank's annual general meeting;
- Reviewing and approving the internal audit programme for the ensuing year, which is based upon an assessment of the bank's top risks, as identified during the internal audit risk assessment process;
- Confirming the expertise, resources and experience of management for the bank's finance function;
- Approving the bank's compliance annual functional plan and monitoring activities for the year; and
- Addressing matters of a regulatory nature, insofar as they impact upon the audit committee.

The audit committee met on five occasions during 2018 and confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review. All the members are classified as independent non-executive directors in terms of King IV and are financially literate.

……………………………..

YGH Suleman
Chairman: audit committee

RISK AND CAPITAL MANAGEMENT COMMITTEE

The risk and capital management committee provides assistance to the board and management in terms of monitoring the risk, capital and liquidity management functions of the bank, together with the bank's compliance function.

A summary of some of the key terms of reference of the risk and capital management committee includes, inter alia:

- Assisting 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;
- Assisting the board in the identification of the build-up and concentration of the various risks to which the bank is exposed;
- Identifying and regularly monitoring all key risks and key performance indicators to ensure that its decision-making capability and the accuracy of its reporting is maintained at a high level;
- Approving the formal risk management functional plan for the ensuing year, which covers all areas of risk management within the bank using an appropriate strategic risk-based methodology;
- Reviewing and recommending the bank's ICAAP to the board for approval; and
- Monitoring all aspects of IT and operational risk, including cyber risk issues and developments.

The risk and capital management committee, which met on four occasions during 2018, confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review.

……………………………..

A Lambat
Chairman: risk and capital management committee

BOARD CREDIT COMMITTEE

The board credit committee has been mandated to review, measure and manage Al Baraka Bank's credit risk strategy and to approve advances in terms of the board-approved delegation framework.

A summary of some of the key terms of reference of the credit committee includes, inter alia:

- Ensuring that the bank's credit risk management process is aligned with Al Baraka Banking Group's credit risk strategy;
- Ensuring that the bank complies with all regulatory returns in respect of credit risk functions;
- Assessing the adequacy of the bank's provisioning policy when deemed necessary, including the review of provisions where credit losses are incurred;
- Reviewing the bank's credit policies, reports and other information it deems necessary;
- Approving of advances in terms of the delegated powers of authority and credit mandates, which includes the monitoring of large exposures and group-connected party lending exposures; and
- Monitoring the credit recovery processes, together with the progress made on matters handed over for legal action. This includes the approval of write-offs of debtor accounts within its delegated authority.

The credit committee, which met on four occasions during 2018, confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review.

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MS Paruk
Chairman: credit committee

DIRECTORS' AFFAIRS COMMITTEE

The directors' affairs committee has been mandated to assist the board in assessing and evaluating the corporate governance structures which have been established by the board and to deal with all the governance related matters and accompanying practices of the bank.

A summary of some of the key terms of reference of the directors' affairs committee includes, inter alia:

- Reviewing the size and composition of the board, taking into account the requirements of the board sub-committees in order to meet the governance and regulatory requirements of the bank;
- Monitoring and maintaining the board-approved directors succession plan and matters relating to the nomination of new directors, in accordance with the board-approved policy;
- Monitoring the adequacy and effectiveness of the bank's corporate governance structures, including training and on-going director development programmes;
- Assisting the board in ensuring that the performance evaluation of the board, board sub-committees, the chairman and individual members support continued improvement in performance and effectiveness; and
- Assisting the board in ensuring that the bank is, at all times, compliant with all applicable laws, regulations and codes of conduct and practices.

Membership of the directors' affairs committee is, in terms of section 64B of the Bank's Act, limited to non-executive directors. The chief executive attends meetings of the committee by invitation only.

The committee, which met on three occasions during 2018, confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review.

SA Randeree
Chairman: directors' affairs committee

REMUNERATION COMMITTEE

The remuneration committee is responsible for advising the board on various matters pertaining, primarily, to human resources, staffing and remuneration.

A summary of some of the key terms of reference of the remuneration committee includes, inter alia:

- Reviewing the bank's remuneration policy, ensuring that it is line with the bank's strategic objectives and risk appetite;
- Ensuring that the appropriate quality of staff are attracted, retained, motivated and appropriately rewarded by the bank;
- Making recommendations to the board on succession planning, both at senior management and executive management level, general staff policy, performance, remuneration, benefits, bonuses and incentive schemes;
- Ensuring that employees' incentive payments are directly linked to the performance levels of the individual, as well as the business;
- Reviewing various policies impacting on human resources, including that of staff financing; and
- Ensuring that a comprehensive employment equity policy exists that addresses, amongst others things, discrimination, disputes, affirmative action and disciplinary action.

The chief executive attends meetings of the committee by invitation, in accordance with the recommendations of the King IV Report on Corporate Governance.

The committee, which met on four occasions during 2018, confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review.

MS Paruk
Chairman: remuneration committee

SOCIAL AND ETHICS COMMITTEE

The social and ethics committee is responsible for monitoring the bank's activities, having regard to relevant legislation and best practice, in the areas of organisational ethics, sustainability and stakeholder management.

A summary of some of the key terms of reference of the social and ethics committee includes, inter alia:

- Monitoring activities relating to social and economic development, good corporate citizenship and the environment;
- Monitoring the bank's commitment to and contributions made in terms of its corporate social responsibility programme;
- Reviewing the impact of the bank's activities, products and services in relation to the well-being of the environment, health and public safety, thereby ensuring that the bank conducts itself in an environmentally-friendly and sustainable manner;
- Reporting annually to the shareholders at the bank's annual general meeting on matters within its mandate;
- Ensuring that the ethics of the bank are managed in a manner that supports the establishment of an ethical culture; and
- Overseeing the bank's commitment towards its Black Economic Empowerment objectives.

The committee, which met on two occasions during 2018, confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review.

During the course of 2018, Mr NJ Kunene retired from the board and as chairman of the social and ethics committee. Mr F Kassim was subsequently appointed as chairman of the committee.

F Kassim
Chairman: social and ethics committee

GOVERNANCE INDICATORS

ETHICAL CONDUCT:

Ethical conduct is the foundation upon which Al Baraka Bank conducts its business operations. All employees and key stakeholders of the bank are committed to adhering to the highest ethical standards, as set-out in the bank's code of conduct, thereby ensuring the long-term sustainability of the financial institution.

TRANSFORMATION:

Al Baraka Bank fully embraces the financial sector codes, set-out in terms of Broad-Based Black Economic Empowerment. Given its revised terms of the amended codes, the bank is classified as a Level 8 Contributor. A plan of action has been prepared in order to address the current rating, which forms part of Al Baraka's corporate citizenship programme.

PRESCRIBED OFFICERS:

The prescribed officers of the bank, as approved by the board, are the executive directors, comprising the chief executive, the chief operating officer and the financial director.

COMPANY SECRETARY

The company secretary is appointed by the board. The company secretary is not a director of the bank and provides support and guidance to the board in matters relating to governance, ethical conduct and the rights and duties of directors. The company secretary is responsible for overseeing the induction and training of directors, whilst also giving effect to the process of board evaluations. The board is satisfied that the company secretary has maintained an independent and arm's length relationship with the board.

SUSTAINABILITY REPORT

"SUSTAINABILITY IS ALL ABOUT MANAGING PROFIT, PEOPLE AND THE PLANET."

PREFACE
Business sustainability in the context of the South African banking industry is frequently referred to as a process whereby banks create resilience over a period of time, managing financial, social and environmental risks in a responsible manner, thus crafting economic value, contributing to a strong community development ethos and a healthy environmental landscape.

This macro-level thinking is closely aligned to recommendations contained in King IV and provides for the need to meet current requirements, without jeopardising the needs of future generations.

AL BARAKA BANK'S SUSTAINABILITY FRAMEWORK
Our sustainability framework is founded on ethical economic principles, a stimulating work environment for staff and an overriding commitment to sound environmental practices.

It is our view that a fully engaged staff complement and the development of sound relationships with our various stakeholder groups are integral to long-term business growth and development. It is this approach which enables us to operate effectively within the country's financial services sector and to deliver efficiently on our overall business strategy.

The purpose of this, our sustainability report, is to articulate and facilitate an appreciation of our financial performance, our social impact and environmental management practice.

STRATEGIC BUSINESS OBJECTIVES
Al Baraka Bank's key business objectives include:

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

RISK AND OPPORTUNITY
The bank is intent on managing risk, such that sustainable and enduring value may be generated to the benefit of stakeholder groups, especially those comprising shareholders and clients.

The risk and capital management committee assumes responsibility for the bank's risk management framework, identifying and assessing risks which could affect our operations. The ultimate objective of this framework is to ensure the requirement of a progressive and responsible risk culture within our financial institution. The risk and capital management committee discharges its responsibility in this regard through its quarterly analysis of risks facing the organisation.

We apply enhanced technology interventions in the identification of risk associated with high global levels of money laundering, in line with recent legislative changes. We are also an active member of the South African Banking Risk Information Centre, ensuring that we remain at the forefront of efforts to contain and eradicate financial fraud in the banking sector, inclusive of endeavours to nullify the scourge of cybercrime sweeping the world.

Practically speaking in this regard, the bank has proactively rolled-out an ongoing staff-wide intervention, affording every employee access to an online cyber security training programme, Cyber Tan, so increasing awareness of possible instances of cyber fraud and crime, being sensitive to such activities and being informed of appropriate remedial actions.

In essence, our bank concerns itself with the need for sustainable finance in its continued promotion of financially sound and socially responsive products, which serve to promote economic prosperity, social wellness and environmental health.

CORPORATE GOVERNANCE AND SUSTAINABILITY
Being an Islamic bank operating in South Africa, we comply fully with business principles and standards set-out by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Through this commitment to AAOIFI standards, it should be noted that Al Baraka Bank is prohibited from undertaking a number of banking practices, which are considered non-Shariah compliant.

In line with the governance philosophy engendered by King IV, our directors' affairs committee is responsible for overseeing and monitoring company-wide adherence to best governance practice.

In view of this, we recognise that our business impacts on the surrounding environment, and so have created an intrinsic sense of accountability towards South African society. This translates into our staff onboarding a deep concern for the collective success of business and society, the impact of which will be realised in the years ahead.

SUSTAINABLE DEVELOPMENT DELIVERY
In view of the importance of effectively managing the dynamic relationship between profit, people and the planet, the bank has adopted a holistic approach to its addressing of economic, social and environmental issues.

• ECONOMIC ISSUES:
As a commercial financial institution, adhering strictly to Shariah principles, Al Baraka Bank strives to maintain a solid growth trajectory. However, its overall business success is tempered by the prevailing economy and associated market conditions.

Against this background, the bank prides itself on being a responsible role-player within the financial services sector in South Africa and adopts a pragmatic approach to the provision of its products and services, endeavouring to ensure that clients are always well-positioned to honour their financial obligations to the bank. Our responsible lending process, in this respect, mirrors an equally low bad debt ratio, which is well within the industry norm.

Through the increased traction of Islamic banking nationally and internationally, Al Baraka Bank is further able to leverage its footprint, as well as its continued economic sustainability within the financial sector.

• ENVIRONMENTAL ISSUES:
Matters of an environmental nature are closely monitored by the bank's social and ethics committee. This ensures that the organisation minimises its impact on the natural environmental footprint in the business context.

Occupational health and safety - A safety management system forms the foundation within our organisation for ensuring the health and safety of employees in the workplace, as well as that of our clients and service providers.

This safety management system includes the planning, development, organisation and implementation of a safety policy and, secondly, the measuring - or auditing - and review of the performance of those functions.

We also regard it important to ensure that health and safety considerations are integrated into the design and development of our new branches and offices. This not only avoids significant costs associated with the later retrofitting of health and safety measures, but also gives effect to improved productivity.

The Occupational Health and Safety Act states that employers have a duty to provide a safe working environment for their employees.

An employer deemed to be in breach of said legislation is liable for prosecution and penalties, as well as being exposed to reputational risks.

Our safety management system is an effective means of identifying strengths and weaknesses, preventing workplace accidents and striving for continuous improvement. An improved safety record not only increases employee efficiency and productivity, but also reduces the financial burden associated with insurance and compensation claims.

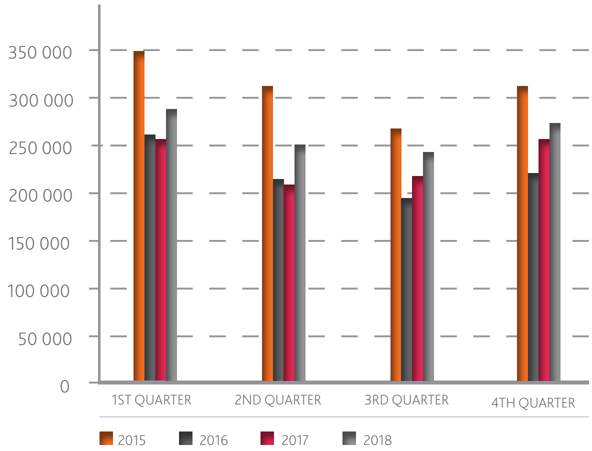
Our safety management system comprises 10 primary core elements, as follows:

- A safety policy which states the commitment of the organisation to health and safety at work;
- Training to equip personnel with the knowledge necessary to work safely and without risk to health;
- In-house safety rules to provide instruction for achieving safety management objectives;
- A programme of inspection to identify hazards and risks for rectification at regular intervals, or as appropriate;
- Investigation of accidents, or incidents, to establish the cause and to develop prompt measures to prevent recurrence;
- Emergency preparedness, such as conducting regular fire drill evacuations and developing, communicating and executing plans prescribing the effective management of emergency situations;
- The evaluation, selection and provision of an understanding regarding their full awareness of their safety obligations and need to meet these obligations;
- Safety committees and quarterly committee meetings held to identify, recommend and regularly review measures to improve health and safety measures at the bank's premises;
- The promotion, development and maintenance of health and safety awareness in the workplace; and
- A programme to protect clients and service providers from occupational health hazards.

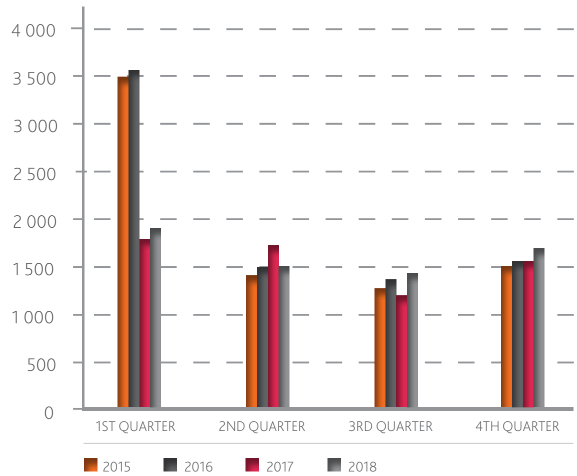
We regard our employees as one of our most valuable assets and, accordingly, deploy the necessary resources to best control risks at work, with a view of protecting our workforce.

Electricity and water consumption - Given its concern for the usage of resources within the business, Al Baraka Bank closely measures its electricity and water consumption with the stated objective of reducing such utilisation over time. The graphic information below reflects quarterly consumption of both electricity and water for the comparative periods 2015 to 2018.

KINGSMEAD ELECTRICITY CONSUMPTION IN KW FOR 2015/16/17/18



KINGSMEAD WATER CONSUMPTION IN KL FOR 2015/16/17/18



Other initiatives - We have also introduced a number of additional initiatives designed to make a positive impact on the environment.

These include:

- Recycling used toner cartridges;
- Ensuring that in-keeping with generally accepted environmental practices, our offices systematically reduce the use of polystyrene cups in so-called pause areas. Such utensils are being phased out and replaced with recyclable paper cups, to be utilised for cold beverages, and porcelain mugs for hot beverages;
- Shredding used paper and cardboard for recycling purposes, for which a document destruction certificate is issued by the recycling service provider;
- Introducing Project 2020, being a new core banking system which will streamline business processes, leading to reductions

in operating and infrastructural expenses, as well as assisting in creating a paperless environment; and
- Adopting a new paperless storage system bank-wide.

• SOCIAL ISSUES:
The bank is well aware of the need for the South African business community to contribute meaningfully towards solving this country's vast social challenges, by implementing interventions designed to develop and empower the disadvantaged, regardless of gender, race or religious belief.

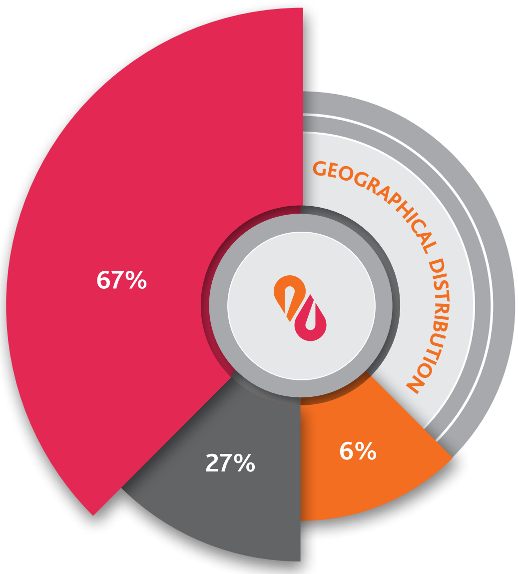
We recognise our responsibility in this regard and, accordingly, have implemented a comprehensive corporate social investment programme, directing our efforts towards the fields of education, health and welfare.

This is driven by Al Baraka Banking Group, in Bahrain, and forms an integral part of our value system, which calls for neighbourliness and social contribution.

In this regard, the 2018 financial year saw the bank's participation in four national initiatives, inclusive of a new school shoe drive, a blanket distribution programme to ward off the Winter chill amongst the homeless, a Mandela Day initiative, involving visits to the elderly in retirement facilities and a fun day event for children residing at several care centres. In addition, three boreholes were sponsored, serving rural and disadvantaged communities in KwaZulu-Natal.

Our members of staff are actively encouraged to participate in our social outreach initiatives, for which involvement is acknowledged and measured in terms of their annual performance appraisals.

In 2018 the bank donated R2,9 million to the furtherance of a range of projects, the geographic and sectoral breakdown of which is reflected below, together with a further R10,8 million being provided to a charitable trust.



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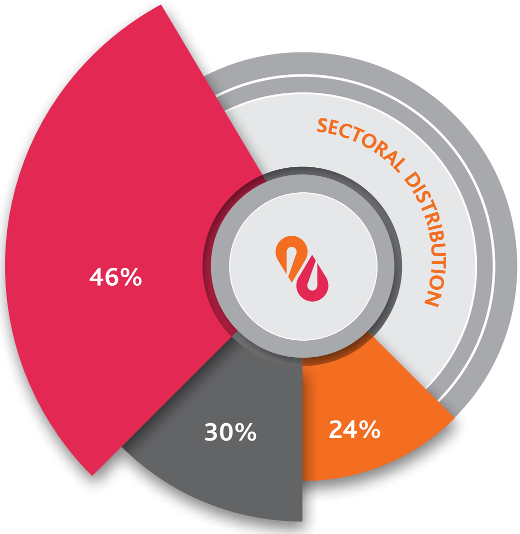

WELFARE

HEALTH

EDUCATION

STAKEHOLDER ENGAGEMENT

The bank recognises and acknowledges the importance of regular and effective engagement with all its identified stakeholder groups.

In keeping with this, the board has adopted a stakeholder-inclusive approach, with such policy enabling the creation of a management stakeholder committee, whose function is, primarily, to monitor the process of stakeholder engagement throughout the bank. This committee met three times during the course of the 2018 financial year.

Identified key stakeholder groups with whom the bank enjoys regular contact include the following:

SUSTAINABILITY REPORT (CONTINUED)

CLIENTS

Al Baraka Bank is intent on providing clients an exceptional banking experience. To achieve this goal, we encourage staff to adopt client service excellence as a way of life for the benefit of our clients and their every interaction and transaction with the bank.

Reasons for engagement with clients -

- To meaningfully address their financial expectations;
- To augment the client experience through the provision of professional advisory services;
- To foster an exceptional banking experience in-branch and online;
- To source information necessary for the meeting of various regulatory requirements in a client-centric manner;
- To address queries, concerns and complaints efficiently and effectively; and
- To encourage anonymity with regard to reporting suspected instances of fraudulent behaviour to an externally-operated anti-fraud hotline.

Frequency of engagement -

- Ongoing and dependent on the financial needs of clients.

Client engagements in 2018 -

- Information session regarding branch consolidation;
- Information road-shows;
- Client functions to mark branch upgrades in Gauteng and the Western Cape;
- Client survey interactions;
- Interactions via branch staff, relationship consultants, the customer service line and complaints facility;
- Social media communications; and
- Events and personal meetings.

STAFF

An informed staff complement is a more productive staff complement and the bank accordingly ensures that its employees receive regular update information pertaining to the company's strategy, objectives and business developments.

Reasons for engagement with staff -

- To provide information about the working environment and our health and safety measures;
- To foster a culture of service excellence throughout the bank;
- To empower staff to give meaningful effect to the roll-out of the bank's business strategy;
- To ascertain staff concerns and requirements and to communicate appropriate solutions; and
- To promote the need for ethical conduct at all times.

Frequency of engagement -

- Ongoing and when specifically required.

Staff engagements in 2018 -

- Email communications on a range of subject matter;
- Video-link conferences with staff nationally;
- Intranet communication and access;
- Opinion surveys;
- e-Newsletters;
- Health and wellness presentations; and
- Staff feedback sessions.

SHAREHOLDERS

The bank recognises the need to keep shareholders informed, in a timely manner, about matters impacting on the bank's financial performance, its future expectations and need for statutory requirements pertaining to their shareholding.

Reasons for engagement with shareholders -

- To provide accurate, approved financial statements;
- To discuss and approve resolutions affecting the future business of the bank;
- To update all relevant shareholder details, such as current FICA information, bank account details to prevent fraud and provision of existing email address;
- To enhance corporate governance relationship as it pertains to other stakeholders; and
- To provide any and all relevant literature of interest.

Frequency of engagement -

- Annual and when the need arises.

Shareholder engagements in 2018

- Annual general meeting;
- Personal meetings.

COMMUNITY

We believe in the need for direct engagement with the community within which we operate, so as to be in a position to cultivate strategic inter-personal relationships, inclusive of client-related linkages and both social and environmental obligations.

Reasons for engagement with community -

- To establish a mechanism to maintain the personal link with community members;
- To identify and evaluate community needs;
- To single out potential event sponsorship opportunities;
- To distribute a range of collateral relevant to the bank and its business operations;
- To explore opportunities to reach communities nationally via digital communication channels; and
- To facilitate awareness regarding the bank's wide-ranging, national social investment activities.

Frequency of engagement -

- Ongoing and pursuant to specific community events and out-reaches.

Community engagements in 2018 -

- The social networking of staff in meeting community needs;
- The dissemination of information pertaining to corporate social investment interventions; and
- The dissemination in community newspapers and on community radio of advisory information on selected topics, such as Sukuk (Islamic financial bond) and the advantages to Islamic banking.

REGULATORY AND INDUSTRY BODIES

Given the high level of regulation necessary within the South African financial services sector, the bank recognises the importance of engagement with existing regulatory authorities and related industry bodies.

Reasons for engagement with regulatory and industry bodies -

- To cultivate professional working relationships geared towards compliance with all laws and regulations;
- To ensure, through such professional relationships, the retention of the bank's appropriate banking licences; and
- To minimise the bank's exposure to operational risk.

Frequency of engagement -

- Weekly, monthly - with regard to the submission of regulatory returns - and annually with regard to prudential meetings with the board, audit committee and the chairman of the board.

Regulatory and industry body engagements in 2018 -

- On-site meetings;
- Submission of regulatory returns; and
- Prudential meetings.

Bodies with which the bank interacts includes:

Regulatory:

- The South African Reserve Bank, including the Prudential Authority;
- The Companies and Intellectual Property Commission;
- The Financial Intelligence Centre;
- The National Credit Regulator;
- The South African Revenue Service;
- The South African Credit and Risk Reporting Association;
- The Financial Sector Conduct Authority; and
- The Information Regulator.

Industry:
- The Banking Association of South Africa;
- The Banking Ombudsman;
- The FAIS Ombudsman;
- The Payments Association of South Africa; and
- The South African Banking Risk and Information Centre.

MEDIA
Engagement with the media - community, provincial, national and international - affords the bank the opportunity to forge relationships with senior finance and business editors for the proactive dissemination of positive bank-related publicity within a range of media channels - print and electronic - for the information of the general public.

Reasons for engagement with media -
- To promote growing interest in Islamic banking as a viable alternative to conventional banking;
- To share the fact that as an Islamic bank, the financial institution provides only Shariah-compliant financial services;
- To promote the bank as an authoritative and credible source of and for comment regarding finance-related matters; and
- To indicate its being the source of trustworthy, authoritative and newsworthy bank and finance-related news, opinions and current affairs.

Frequency of engagement -
- Ongoing and, more specifically, to promote the best interests of the bank when appropriate.

Media engagements in 2018 -
- Provision of media releases and statements to a range of media channels with newsworthy finance, corporate social investment and opinion pieces;
- Arrangement of interviews with senior bank personnel.

SUPPLIERS AND CONTRACTORS
The bank, acting in accordance with its preferential procurement policy, recognises the importance of keeping existing and prospective suppliers and contractors fully informed about its operations and associated needs in order to ensure the cost-effective and most appropriate provision of services.

Reasons for engagement with suppliers and contractors -
- To source materials and services in accordance with the bank's procurement policy;
- To assist small business enterprises remain sustainable through a number of interventions, inclusive of early payment solutions for services rendered and materials supplied, as well as the provision of business advisory services, when requested;
- To ensure, through our supply chain function, the promotion of the economic viability and environmental consciousness of suppliers and contractors; and
- To encourage local procurement of services and materials.

Frequency of engagement -
- Ongoing and as required to meet business demands.

Suppliers and contractors engagements in 2018 -
- Marketing communication and media relations services;
- Travel and accommodation services;
- Infrastructural upgrades and shop-fitting services; and
- Audit services.

ISLAMIC SCHOLARS AND ORGANISATIONS
Given the bank's adherence to Shariah principles, it actively engages with Islamic scholars and organisations, in an effort to share information and ensure widespread awareness of its role and function within the broad financial services sector.

Reasons for engagement with Islamic scholars and organisations -
- To ensure that Al Baraka Bank is seen to remain true to its Islamic banking principles;
- To clarify issues of Shariah interests; and
- To foster a good working relationship between the bank and relevant Shariah bodies.

Frequency of engagement -
- Ongoing.

Islamic scholars and organisations engagements in 2018 -
- Shariah Department meeting with Jamiatul Ulama South Africa;
- Islamic banking Seminar to Ulama - Young Leaders Academy Course;
- Seminar regarding key aspects of Islamic finance and banking;
- Hosted groups of Ulama, one in Durban and another in Johannesburg; and
- Meeting with AAOIFI Acting Secretary General in Bahrain.

CONCLUSION
Whilst Al Baraka Bank regards sustainability reporting as a key component of a business strategy, it is so much more than this. It depicts the company's footprint, charting a way forward which effectively combines the smart and technologically advanced management of its finances, with strategic investment in meeting social needs and a responsible approach to avoiding environmental degradation.

As with any journey, we recognise that there is much ground yet to be covered.

We have a sound commitment from the board to give substantial expression to sustainability reporting going forward, ensuring our continued commitment to best governance practice, transparency of operation and accountability for our actions.

Although we are fully committed to profit, people and planet disclosures relating to sustainability reporting in its totality, we are not yet able to provide comprehensive commentary, and must therefore confirm that no assurance has been attained relating specifically to the bank's environmental measures impacting on the 2018 financial year.

COMPLIANCE REPORT

COMPLIANCE WAS AT THE FOREFRONT OF THE BANKING INDUSTRY IN 2018, WITH GREAT EMPHASIS BEING PLACED ON COMPLIANCE FUNCTIONS AND THEIR IMPORTANCE IN ORGANISATIONS AND, MORE ESPECIALLY, BANKS.

The regulatory landscape continues to demand from financial institutions a strong compliance and corporate governance culture. Achieving regulatory compliance has become a daily focus for financial institutions and Al Baraka Bank consistently applies the highest level of ethical standards, ensuring that the bank complies with regulatory and supervisory requirements.

The key regulatory considerations for the banking industry in 2018 remained ongoing compliance with Basel III and a shift towards the Twin Peaks model of financial regulation.

Basel III is an international regulatory accord that introduced a set of reforms designed to improve the regulation, supervision and risk management within the banking sector and to strengthen transparency. Full compliance with the Basel III framework is being phased in, with certain transitional arrangements being made to afford banks sufficient time to meet the higher standards set out by Basel III.

The 2018 financial year saw many changes coming into effect within an already robust regulatory landscape. The Twin Peaks model has found its place in the new regulatory landscape. The Financial Sector Regulation Act provided the architecture for the new Twin Peaks method of regulation to be adopted across the South African financial services industry.

Arising from the Twin Peaks regime, two new regulators have been created, namely the Prudential Authority and the Financial Sector Conduct Authority. Both came into effect on 01 April 2018. The Prudential Authority replaced the Banking Supervision Department of the South African Reserve Bank and the Financial Sector Conduct Authority replaced the Financial Services Board.

The two new authorities have already commenced the process necessary to create/amend regulations and laws in order to give effect to the new regime envisaged for South Africa. Amongst these changes is the amended Fit and Proper Requirements for Representatives, in terms of the Financial Advisory and Intermediary Services (FAIS) Act. Effective from 01 April 2018, the financial services industry was required to undertake serious transformation in respect of requirements which particular advisors had become obliged to meet. Emphasis was placed on conducting proper training for these affected advisors and in ensuring their understanding of and competence in the classes of business they are required to sell. Failure to meet any of these requirements within the specified time meant these representatives would no longer be considered to be fit and proper and would not be able to sell financial products/render financial services.

The Financial Intelligence Centre (FIC) Amendment Act, another very important piece of legislation affecting the country's ongoing relationship with the Financial Action Task Force (FATF), featured significantly during 2017. The Financial Intelligence Centre, National Treasury and other industry bodies worked closely to ensure a smooth guidance period. In the latter part of 2017 and throughout 2018, the Financial Intelligence Centre initiated a consultation process with accountable institutions, supervisory bodies and other affected entities regarding the implementation of the Act's amendments. During these consultations, the body published draft guidance notes and invited feedback from all interested and affected parties.

In keeping with a new robust risk-based approach, financial institutions have the ability to formulate rules to suit their unique risk appetite, obviously guided by relevant legislation, industry standards and international best practice. In addition, financial institutions will be able to identify specific threats, assess unique vulnerabilities to determine their risks, explore avenues to reduce risks and then implement risk reduction efforts in accordance with the bank's business strategy. Financial institutions are well advanced with the implementation of a Risk Management Compliance Programme, which allows them the freedom to write into policy the terms and conditions they wish to adopt, subject to guidance provided by the authorities. The South African Reserve Bank closely monitors progress by banks on the implementation of the Risk Management Compliance Programme in the build-up to the implementation date for the FIC Amendment Act, which is 02 April 2019.

The FIC Amendment Act will improve the protection of the integrity of South Africa's financial system and will strengthen its ability to prevent and punish financial crime.

Another Act which gained traction during the financial year was the Protection of Personal Information Act (POPIA). The era of advanced technology has brought with it increasing levels of cyber crime, hacking, identification theft and other illegal or unethical activities, heightening the need for better personal data defences. This legislation is designed to protect any personal information processed by both private and public bodies, inclusive of Government.

Although POPIA is not yet fully effective, given that a commencement date is yet to be set, the Information Regulator has been actively involved in considering and investigating potential data breaches or complaints regarding the misuse of personal information. It is likely that an effective date will be published early in 2019 and once set, organisations will be afforded 12 months to comply with the Act.

As a result of the impact of these new regulatory changes, the bank has embarked on a number of projects, including implementing new systems and developing new processes. These have come at a huge cost to the bank. However, it is recognised that they are necessary for the bank to move towards aligning itself with both local and international best practise, with the emphasis not on implementing short-term solutions, but rather on implementing sustainable solutions for the future of the bank.

The continuously changing regulatory requirements demand that staff, management, executives and the board are kept abreast of the impact these changes may bring, as well as the affected policies and processes which must be invoked in order to give effect to the changes.

The organisation maintains a strong stance on training and strives to ensure that staff are exposed to relevant and appropriate training before they consult with relevant stakeholders. The bank's compliance function plays a pivotal role in ensuring that the correct level of training is provided to relevant members of staff and management, in keeping with their portfolios and business functions. In fulfilling this role, compliance independently facilitates training programmes and engages on an ongoing basis with the human resources function, so ensuring that staff receive the requisite training.

The bank's regulatory universe, containing legislation impacting the business, continues to play a significant role within the compliance function.

Compliance also interacts with various divisions, ensuring that appropriate controls are in place for compliance with a variety of

legislative requirements, regulations, supervisory requirements and international best practice. Compliance also works hand-in-glove with other assurance providers, so ensuring the adequate observance of corporate governance by the bank. This gives effect to the combined assurance model, which is in line with the requirements of King III and IV.

Compliance representatives serve on a range of strategic forums and committees, whilst also providing guidance to the board and the management team in terms of matters of regulatory and reputational risk.

Compliance monitoring serves as a powerful tool to ensure that ethics and compliance processes continue to work and improve. Compliance also adheres to a robust monitoring programme, which assists in maintaining oversight on the level of compliance by various line management functions within the organisation. Monitoring in respect of the Financial Advisory and Intermediary Services (FAIS) Act, AML/CTF and various other legislation remains at the top of the list of Compliance function priorities. This ensures a sophisticated banking system backed by a sound regulatory and legal framework aimed to ensure systemic stability, institutional safety and soundness, and the promotion of consumer protection.

The bank continues to impose a zero tolerance policy on non-compliance with any legislation. Errant staff face harsh and strict disciplinary measures, especially for repeat offenders. Compliance plays a pivotal role in identifying regulatory non-compliance and reporting same to relevant management functions and the board. The compliance function also actively engages with the various committees of the Banking Association of South Africa and the South African Banking Risk Identification Centre (SABRIC), together with other ad hoc committees, to afford the bank the opportunity to make an impact on regulatory reforms affecting the industry and country. In terms of our membership with the Banking Association of South Africa, we have enjoyed vigorous interaction and have actively utilised said representation to make recommendations and provide feedback in terms of various issues which formed part of the relevant meeting agendas for various committees.

The bank maintains a strict balance between staunch compliance to laws and regulations and the needs and desires of its clients, with customer satisfaction being at the core of the bank's objectives. Compliance continues to strive to maintain a strong compliance culture within the organisation, driven from the very top and which is entrenched in the foundation upon which the bank stands.

Al Baraka Bank adheres stringently to Shariah and a hard-line is applied regarding ethical banking. This affords clients the peace-of-mind that their financial interests are being managed to the highest ethical standards. The bank is driven by these values, ensuring that it grows ever stronger and provides greater value to its customers each year. Notwithstanding the ever-changing regulatory environment, Al Baraka Bank continues to make great strides in South Africa's banking and financial services industry and we look forward to even greater success in the years ahead.

SHARIAH REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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 products 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 the applicable Shariah Rules and Principles, the rulings set out 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:
- Murabaha Financing;
- Musharaka Financing;
- Equity Murabaha Transactions;
- Islamic Wills;
- Profit Distribution;
- Management Accounts;
- Disposal of Impermissible Income;
- Calculation of Zakah;
- FOREX Transactions; and
- Banking and Finance Fees.

The Shariah audit also included a review of the Albaraka Bank Limited Sukuk Trust.

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 the applicable 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 the applicable Shariah Rules and Principles;
3. An amount of impermissible income has been designated to be paid to charity (refer to the Welfare and Charitable Funds note in the notes to the annual financial statements);
4. In relation to certain transactions, which were erroneously transacted, we directed management to rectify same; and
5. Zakah of the bank was calculated at 45 cents per share. Shareholders are advised to discharge this Zakah individually, as the bank is not mandated to discharge this on their behalf.

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

Dr Abdus Sattar Abu Ghudda
Chairman

Shaykh Mahomed Shoaib Omar
Member

Mufti Zubair Bayat
Member

Mufti Shafique Jakhura
Member

29 March 2019

SHARIAH SUPERVISORY BOARD COMPLIANCE REPORT

THE SHARIAH SUPERVISORY BOARD IS AN INDEPENDENT BODY COMPRISING SPECIALIST JURISTS IN ISLAMIC COMMERCIAL JURISPRUDENCE, WHICH IS ENTRUSTED WITH DIRECTING, REVIEWING AND SUPERVISING THE ACTIVITIES OF AL BARAKA BANK, IN ORDER TO ENSURE THAT THE BANK COMPLIES WITH SHARIAH LAW.

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 Shariah standards set out by AAOIFI.
It is the responsibility of the Shariah Supervisory Board to carry out regular audits of the bank's business operations and to form, based on its reviews, an independent opinion. The Shariah Supervisory Board's rulings and resolutions are binding on the bank.

MEMBERS OF THE SHARIAH SUPERVISORY BOARD

DR ABDUS SATTAR ABU GHUDDA (SYRIAN)

Dr Ghudda is senior Shariah consultant at Al Baraka Banking Group, a director of the Department of Financial Instruments at Al Baraka Investment and Development Company, a member of the Shariah Supervisory Boards of several Islamic financial institutions and is an active member of the OIC Islamic Fiqh Academy and AAOIFI.

Dr Ghudda was responsible for the research and compilation of the Encyclopaedia of Fiqh, sponsored and published by 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. He obtained BA degrees in Islamic Law and in mainstream 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.

SHAYKH MAHOMED SHOAIB OMAR

Shaykh Mahomed Shoaib Omar serves as a member of the Shariah Supervisory Board of Al Baraka Bank. He completed his B.Com Law degree and LLB at the University of KwaZulu-Natal. He studied Arabic and Islamic Law personally under the renowned contemporary jurist, Mufti Taqi Usmani, at Darul Uloom Karachi and has received Ijaazah from him. He was also a student of the Chief Qadi of India, Mujahidul Islam Qasemi, the founder of the Islamic Fiqh Academy of India and a distinguished authority in Muslim Family Law. During the past 35 years he has collaborated with Mufti Taqi Usmani in solving problems affecting Contemporary Applications in Islamic Law. He has, for the past 17 years, also worked closely with well-known contemporary Shariah expert, Dr Abdus Sattar Abu Ghudda, in the field of Islamic Finance and has extensive experience in the application of Shariah Law to contemporary situations, including Islamic Finance.

He was granted the right of appearance in the High and Constitutional Courts of South Africa in 1995. He successfully argued the landmark case of Amod v Road Accidents Fund in the Constitutional Court and Supreme Court of Appeal, which case recognised a duty of support flowing from an Islamic marriage.
He currently practices as an attorney, specialising in Shariah and Corporate Law. He has written a number of books and numerous articles on Islamic law and its contemporary applications, inclusive of Islamic Finance, in English and Arabic. He is regarded as expert in comparative jurisprudence (fiqh al muqaarin).

MUFTI ZUBAIR BAYAT

Mufti Zubair Bayat is the founder and current Ameer of Darul Ihsan Islamic Services Centre. He also serves on the board of Islamic Schools as well as Islamic financial institutions and as advisor to various organisations. After matriculating, he completed his Aalim Fadhil and Ifta courses at the famous Darul Uloom Deoband, India. He thereafter furthered his studies by obtaining his Master of Arts degree (cum laude) in Islamic Studies from the University of Johannesburg and obtained a certificate in Muslim Personal Law from the University of Islamabad. After completing his formal studies, he occupied a post as a lecturer at Darul Uloom, Azaadville, and then moved to Stanger where he established the Zakariyya Muslim School and served as Principal and Ameer. He also served as Chairman of the Association of Muslim Schools in KwaZulu-Natal.

He has travelled extensively delivering talks and workshops covering a variety of subjects, written many articles and published several books.

MUFTI SHAFIQUE AHMED JAKHURA

Mufti Jakhura serves in the Fatwa Department at the Darul Ihsan Research Centre in Durban preparing and issuing Islamic juristic rulings. He has established and heads the Centre for Islamic Economics and Finance SA (CIEFSA) - a non-profit organisation dedicated to increasing awareness and providing education in the fields of Islamic economics and finance, structuring Shariah-compliant transactions and providing Shariah-compliant commercial solutions at various levels.

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 is a Shariah Accountant and Auditor, certified by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Bahrain. He has an Advanced Diploma in Islamic Banking and Finance from the Karachi-based Centre for Islamic Economics.

SHARIAH SUPERVISION OF THE OLD MUTUAL AL BARAKA UNIT TRUST FUNDS

The partnered Old Mutual Albaraka Shariah funds are managed in strict accordance with Shariah. The funds afford opportunities for Muslims to invest in socially and morally responsible investments on the Johannesburg Securities Exchange and global markets, as well as Shariah-compliant cash investments.

MEMBERS OF THE SHARIAH SUPERVISORY BOARD

Dr Abdus Sattar Abu Ghudda (Chairman)
Shaykh Mahomed Shoaib Omar
Mufti Zubair Bayat
Mufti Shafique Ahmed Jakhura

SUB-COMMITTEE OF THE SHARIAH SUPERVISORY BOARD

Shaykh Mahomed Shoaib Omar (Chairman)
Mufti Zubair Bayat
Mufti Shafique Ahmed Jakhura

The Shariah Supervisory Board meets at least once annually and the sub-committee meets at least four times a year. The Shariah Supervisory Board has appointed a sub-committee to review and ensure that all investments made by the funds comply with its directives, which are issued in line with the applicable Shariah principles, as set out by AAOIFI, and to report to the Shariah Supervisory Board. The appointment of an independent Shariah Supervisory Board to supervise the bank and the Shariah funds is indicative of Al Baraka Bank's absolute commitment to both Shariah and Islamic economic principles. The members of the Shariah Supervisory Board are reappointed on an annual basis by the shareholders at the bank's annual general meeting (AGM).

alBaraka

INTEGRATED
FINANCIAL STATEMENTS
2018

30 Years of Partnership Banking

Your Partner Bank

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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. Osman Gani Moosa CA(SA) of Al Baraka Bank, was responsible for the preparation and Sumeshion Chetty CA(SA), general manager: finance, was responsible for the review of the financial statements.

DIRECTORS' RESPONSIBILITY STATEMENT

THE COMPANY'S DIRECTORS ARE RESPONSIBLE FOR THE PREPARATION AND FAIR PRESENTATION OF THE GROUP ANNUAL FINANCIAL STATEMENTS AND COMPANY ANNUAL FINANCIAL STATEMENTS,

comprising the statement of financial position as at 31 December 2018 and the statement of profit or loss and other 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 going concerns 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 company 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 as set out on pages 29 to 89 were approved by the board of directors on 29 March 2019 and signed on their behalf by:

....
Adnan Ahmed Yousif
Chairman

....
Shabir Ahmed Essop 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
29 March 2019

AUDIT COMMITTEE REPORT

DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2018, THE AUDIT COMMITTEE CONVENED FIVE TIMES TO DISCHARGE BOTH ITS STATUTORY AND BOARD RESPONSIBILITIES.

During the 2017 year there was a change in chairmanship of the audit committee from MS Paruk to YGH Suleman. 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 group annual financial statements. Amongst others, the committee:

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

Since the group annual financial statements complied, in all material aspects, with the principles, policies and accounting practices and standards adopted in preparation of the group 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 group 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 27 June 2019.

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, as set out in the board-approved internal audit charter, 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. Regularly met separately with the internal audit manager; and
5. Did not receive any complaints relating to the internal audit of the company.

EXTERNAL AUDIT AND RELATED MATTERS

Ernst & Young Inc. is 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.

....

YGH Suleman
Chairman of the Audit Committee

29 March 2019

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALBARAKA BANK LIMITED

WE HAVE AUDITED THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS OF ALBARAKA BANK LIMITED SET OUT ON PAGES 36 TO 89 WHICH COMPRISE THE CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018, AND

the consolidated and separate statements of profit and loss and other comprehensive income, consolidated and separate statements of changes in shareholders' equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

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 2018, and its consolidated and separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code), the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing the audit of Albaraka Bank Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audits of Albaraka Bank Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

The directors are responsible for the other information. The other information which we obtained prior to the date of this report comprises the Directors' Report, Company Secretary Statement and Audit Committee Report, as required by the Companies Act of South Africa, and the Directors' Responsibility Statement. The other information which is expected to be made available to us after the date of this report comprises the Annual Report. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the 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.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the auditor of Albaraka Bank Limited for 10 years.

ERNST + YOUNG INC.

Ernst & Young Inc.
Director: Merisha Kassie
Registered Auditor
Chartered Accountant (SA)

29 March 2019
Durban

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

THE DIRECTORS HAVE PLEASURE IN PRESENTING THEIR REPORT FOR THE YEAR ENDED 31 DECEMBER 2018.

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), Laudium (Pretoria), Lenasia (Johannesburg), Rosebank (Johannesburg), Kingsmead (Durban), Overport (Durban), corporate offices in Western Cape, Gauteng, and KwaZulu-Natal.

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 (2017: 100,0 million) ordinary shares of R10 each, amounting to R1,0 billion (2017: R1,0 billion). The issued share capital of the company comprises 32,2 million (2017: 32,2 million) ordinary shares of R10 each, amounting to R322,4 million (2017: R322,4 million).

FINANCIAL RESULTS
The results of the group and the company for the year ended 31 December 2018 are set out on pages 29 to 89.

DIVIDENDS
On 23 March 2018 the directors declared a dividend of 55 cents (2017: 50 cents) per share amounting to R17,7 million (2017: R16,1 million) paid to shareholders registered as at close of business on 06 July 2018.

GROUP STRUCTURE
Albaraka Properties Proprietary Limited is a wholly-owned subsidiary of Albaraka Bank Limited. The Albaraka Sukuk Trust is also consolidated as part of the group reporting in terms of IFRS 10 principles due to the fact that the Albaraka Sukuk Trust was created specifically to administer the issuance and management of the Albaraka Sukuk product. Albaraka Sukuk Trust therefore cannot operate in the absence of the bank and as such is required to be consolidated as part of the group reporting.

CAPITAL MANAGEMENT
The bank continues to work towards strong management of its capital reserves. In 2018, the bank fully subscribed it's Sukuk of R200 million via the Albaraka Sukuk Trust.

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

NON-INDEPENDENT NON-EXECUTIVE
MJD Courtiade CA(SA) (French) Retired as executive 31 March 2018, appointment effective 01 April 2018

INDEPENDENT NON-EXECUTIVE
SA Randeree (British) Vice chairman (Lead independent director)
F Kassim (Sri Lankan)
A Lambat CA(SA)
MS Paruk CA(SA)
NJ Kunene Retired effective 30 June 2018
YGH Suleman CA(SA)
Adv JMA Cane SC Effective 10 April 2018

EXECUTIVE
SAE Chohan CA(SA) - chief executive
M Kaka CA(SA) - chief operating officer
A Ameed CA(SA) financial director

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

Business address	Postal Address	Registered address
2 Kingsmead Boulevard	PO Box 4395	2 Kingsmead Boulevard
Kingsmead Office Park	Durban	Kingsmead Office Park
Stalwart Simelane Street	4000	Stalwart Simelane Street
Durban, 4001		Durban, 4001

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

		GROUP		COMPANY	
		2018	2017	**2018**	2017
	Notes	**R'000**	**R'000**	**R'000**	**R'000**
Assets					
Property and equipment	3	**116 175**	113 627	**56 615**	61 305
Investment properties	4	**10 339**	10 502	**-**	-
Intangible assets	5	**36 992**	29 329	**36 992**	29 329
Investment in and amount due by subsidiary company	6	**-**	-	**20 148**	17 942
Deferred tax asset	7	**-**	4 723	**23 685**	31 372
Investment securities	8	**24 425**	25 717	**24 425**	25 717
Advances and other receivables	9	**5 976 252**	5 110 818	**5 976 094**	5 110 667
South African Revenue Service receivable	10	**-**	1 215	**-**	1 158
Regulatory balances	11	**374 922**	337 650	**374 922**	337 650
Cash and cash equivalents	12	**295 112**	246 438	**294 907**	246 196
Total assets		**6 834 217**	5 880 019	**6 807 788**	5 861 336
Equity and liabilities					
Equity					
Share capital	13	**322 403**	322 403	**322 403**	322 403
Share premium	13	**82 196**	82 196	**82 196**	82 196
Other reserves		**876**	1 460	**876**	1 460
Retained income		**307 647**	255 532	**286 871**	236 762
Shareholders' interests		**713 122**	661 591	**692 346**	642 821
Liabilities					
Welfare and charitable funds	14	**20 031**	14 981	**20 031**	14 981
Accounts payable	15	**40 010**	56 382	**39 135**	55 991
Deferred tax liability	7	**4 670**	-	**-**	-
South African Revenue Service payable	16	**1 478**	76	**1 350**	544
Provision for leave pay	17	**8 940**	8 517	**8 940**	8 517
Deposits from customers	18	**5 844 299**	5 092 593	**5 844 299**	5 092 593
Sukuk	19	**201 667**	45 879	**201 687**	45 889
Total liabilities		**6 121 095**	5 218 428	**6 115 442**	5 218 515
Total equity and liabilities		**6 834 217**	5 880 019	**6 807 788**	5 861 336

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

		GROUP		COMPANY	
		2018	2017	**2018**	2017
	Notes	**R'000**	**R'000**	**R'000**	**R'000**
Income earned from advances		**479 077**	441 567	**479 077**	441 567
Income earned from equity finance		**58 756**	46 615	**58 756**	46 615
Gross income earned		**537 833**	488 182	**537 833**	488 182
Income paid to depositors	20	**(254 876)**	(236 412)	**(254 875)**	(236 412)
Income paid to Sukuk holders/Albaraka Sukuk Trust		**(11 156)**	(3 568)	**(11 372)**	(3 829)
Net income before impairment for credit losses		**271 801**	248 202	**271 586**	247 941
Impairment for credit losses		**101**	(3 991)	**101**	(3 991)
Net income after impairment for credit losses		**271 902**	244 211	**271 687**	243 950
Net non-Islamic income	21	**-**	-	**-**	-
Fee and commission income	22	**45 922**	44 353	**46 165**	44 585
Other operating income	23	**4 342**	4 719	**10 649**	12 976
Net income from operations		**322 166**	293 283	**328 501**	301 511
Operating expenditure	24	**(235 139)**	(219 141)	**(237 620)**	(222 974)
Finance costs		**-**	-	**(9 416)**	(9 808)
Profit before taxation		**87 027**	74 142	**81 465**	68 729
Taxation	25	**(21 735)**	(23 225)	**(18 181)**	(19 219)
Profit after tax for the year attributable to equity holders		**65 292**	50 917	**63 284**	49 510
Other comprehensive income					
Items not subsequently/subsequently reclassified to profit and loss					
Fair value (loss)/profit net of tax	26	**(584)**	260	**(584)**	260
Total comprehensive income for the year, net of tax, attributable to equity holders		**64 708**	51 177	**62 700**	49 770
Weighted average number of shares in issue ('000)		**32 240**	32 240		
Basic and diluted earnings per share (cents)	27	**202,5**	157,9		

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Share capital	Share premium	Other reserves	Retained income	Shareholders' interest
		R'000	R'000	R'000	R'000	R'000
Group	**Notes**					
2018						
Balance at beginning of year		**322 403**	**82 196**	**1 460**	**255 532**	**661 591**
IFRS 9 opening balance adjustment	9	-	-	-	4 555	4 555
Restated opening balance		**322 403**	**82 196**	**1 460**	**260 087**	**666 146**
Profit after tax		-	-	-	**65 292**	**65 292**
Dividends declared		-	-	-	**(17 732)**	**(17 732)**
Other comprehensive income		-	-	**(584)**	-	**(584)**
Balance at end of year		**322 403**	**82 196**	**876**	**307 647**	**713 122**
2017						
Balance at beginning of year		322 403	82 196	1 200	220 735	626 534
Profit after tax		-	-	-	50 917	50 917
Dividends declared		-	-	-	(16 120)	(16 120)
Other comprehensive income		-	-	260	-	260
Balance at end of year		322 403	82 196	1 460	255 532	661 591
Company						
2018						
Balance at beginning of year		**322 403**	**82 196**	**1 460**	**236 762**	**642 821**
IFRS 9 opening balance adjustment		-	-	-	4 557	4 557
Restated opening balance		**322 403**	**82 196**	**1 460**	**241 319**	**647 378**
Profit after tax		-	-	-	**63 284**	**63 284**
Dividends declared		-	-	-	**(17 732)**	**(17 732)**
Other comprehensive income		-	-	**(584)**	-	**(584)**
Balance at end of year		**322 403**	**82 196**	**876**	**286 871**	**692 346**
2017						
Balance at beginning of year		322 403	82 196	1 200	203 372	609 171
Profit after tax		-	-	-	49 510	49 510
Dividends declared		-	-	-	(16 120)	(16 120)
Other comprehensive income		-	-	260	-	260
Balance at end of year		322 403	82 196	1 460	236 762	642 821

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

		GROUP		COMPANY	
		2018	2017	**2018**	2017
	Notes	**R'000**	**R'000**	**R'000**	**R'000**
Cash flow from operating activities					
Cash generated from operations	29.1	**106 902**	86 612	**97 062**	77 921
Changes in working capital	29.2	**2 219**	13 673	**1 159**	14 187
Taxation paid	29.3	**(14 313)**	(25 982)	**(12 468)**	(24 106)
Dividends paid	29.4	**(17 689)**	(15 992)	**(17 689)**	(15 992)
Net cash inflow from operating activities		**77 119**	58 311	**68 064**	52 010
Cash flow from investing activities					
Purchase of property and equipment	29.5	**(14 673)**	(11 766)	**(10 319)**	(8 737)
Purchase of intangible assets	29.6	**(16 637)**	(10 401)	**(16 637)**	(10 401)
Purchase of investment securities	8	**(83)**	(33)	**(83)**	(33)
Proceeds from disposal of property and equipment		**220**	201	**164**	201
Dividend income	23	**1 436**	1 368	**8 436**	10 368
(Increase) in investment in and amount due by subsidiary		**-**	-	**(2 206)**	(5 970)
Net cash utilised in investing activities		**(29 737)**	(20 631)	**(20 645)**	(14 572)
Cash flow from financing activities		**-**	-	**-**	-
Net increase for the year		**47 382**	37 680	**47 419**	37 438
Net foreign exchange difference on cash on hand		**1 292**	2 208	**1 292**	2 208
Cash and cash equivalents at beginning of year		**246 438**	206 550	**246 196**	206 550
Cash and cash equivalents at end of year	12	**295 112**	246 438	**294 907**	246 196

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2018

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 (Stanger Street), Durban, 4001. The consolidated financial statements of the company for the year ended 31 December 2018 comprise the company, its subsidiary and the Albaraka Sukuk Trust (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 certain financial assets 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. Numbers are in Rand thousands.

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.

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 6, property and equipment.

Impairment losses on financial assets (Effective 1 January 2018)

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs; and
- Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Impairment losses on financial assets (Effective prior to 1 January 2018)

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:

- A constant cash flow would be received based on the recent payment history;
- The cash flow would be received for a period that was sufficient to repay the outstanding advance amount; and
- 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 last 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 financial position and statement of profit or loss and other comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary. The Parent and its subsidiary's assets, liabilities, equity, income, expenses and cash flows are presented as those of a single economic entity.

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

The Albaraka Sukuk Trust was created specifically as a structured entity to administer the issuance and management of the Albaraka Sukuk product. The Albaraka Sukuk Trust therefore cannot operate in the absence of the bank and as such is required to be consolidated as part of the group reporting. Assets, liabilities, income and expenses of the Trust for the year are included in the statement of financial position and statement of profit or loss and other comprehensive income from the date the group gains control until the date the group ceases to control the Trust.

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. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (EFFECTIVE JANUARY 2018)

New and amended standards and interpretations

In these financial statements, the bank has applied IFRS 9 effective for annual periods beginning on or after 1 January 2018, for the first time. IFRS 15 is also effective, but has not had an impact on the bank. The bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVOCI) ;
- Equity instruments at FVOCI, no subsequent recycling to P/L;
- Financial assets FVPL.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the bank's accounting for advances loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the bank to record an allowance for ECLs for all advances, together with advance commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Under IAS 39, an entity only considers those impairments that arise as a result of incurred loss events. The effects of possible future loss events cannot be considered, even when they are expected.

IFRS 9 introduced a new expected credit loss ('ECL') model which broadened the information that an entity is required to consider when determining its expectations of impairment. Expectations of future events are taken into account and this has resulted in the earlier recognition of larger impairments. There are two main approaches to applying the ECL model. The general approach involves a three stage approach and introduced some new concepts such as 'significant increase in credit risk', '12-month expected credit losses' and 'lifetime expected credit losses'. IFRS 9 recognised that implementing these requirements can be complex in practice and, therefore, entities were permitted (and in some cases are required) to apply a simplified approach.

The standard required the application of the simplified approach to trade receivable and contract assets that do not contain a significant financing component. The bank's primary activity is that of lending and thus the majority of it's business contains a significant financing component and has thus applied the general approach. Refer to note 9 for the transitional disclosure.

5. SIGNIFICANT ACCOUNTING POLICIES (EFFECTIVE JANUARY 2018)

Recognition of profit:

The effective profit rate method

Under both IFRS 9 and IAS 39, profit is recorded using the effective profit rate (EPR) method for all financial instruments measured at amortised cost. Profit from financial assets measured at FVOCI under IFRS 9, similarly to profit from financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EPR method. The EPR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Profit and similar income

The bank calculates profit by applying the EPR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the bank calculates profit by applying the effective profit rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the bank reverts to calculating profit on a gross basis and any adjustment previously not recognised in income is taken to bad debts recovered.

Impairment of financial assets:

The calculation of expected credit losses

The bank calculates expected credit losses based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EPR. A cash short-fall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- **Probability of default**
  The probability of default is an estimate of the likelihood of default over a given time horizon.
  A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

- **Exposure at default**
  The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.

- **Loss given default**
  The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the exposure at default.

When estimating the expected credit losses, the bank considers three scenarios (a base case, an optimistic and a downturn case). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted advances are expected to be recovered, including the probability that the advances will cure and the value of collateral or the amount that might be received for selling the asset.

The mechanics of the ECL method are summarised below:

Stage 1:
The 12-month ECL is calculated as the portion of Lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The bank calculates the 12-month ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EPR. This calculation is made for each of the scenarios, as explained above.

Stage 2:
When an advance has shown a significant increase in credit risk since origination, the bank records an allowance for the Lifetime ECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash short-falls are discounted by an approximation to the original EPR.

Stage 3:
For advances considered credit-impaired, the bank recognises the lifetime expected credit losses for these advances.

Commitments and letters of credit:

Financial guarantee contracts
When estimating Lifetime ECLs for undrawn loan commitments, the bank estimates the expected portion of the commitment that will be drawn

down over it's expected life. The ECL is then based on the present value of the expected short-falls in cash flows if the facility is drawn-down, based on a probability-weighting of the three scenarios. The expected cash short-falls are discounted at an approximation to the expected EPR on the advance.

For trade facilities that include both an advance and an undrawn commitment , ECLs are calculated and presented together with the advance. For advance commitments and letters of credit, the ECL is recognised within provisions.

The bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted profit rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

Trade facilities

The bank's product offering includes a variety of corporate trade facilities, in which the bank has the right to cancel and/or reduce the facilities without notice. The bank calculates ECL over a period that reflects the bank's expectations of the customer behaviour, its likelihood of default and the bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the bank's expectations, the period over which the bank calculates ECLs for these products, is two years.

The ongoing assessment of whether a significant increase in credit risk has occurred for trade facilities is similar to other products. This is based on shifts in the customer's external credit grade and arrears days.

The profit rate used to discount the ECLs is based on the average profit rate that is expected to be charged over the expected period of exposure to the facilities.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made on an individual basis.

In its ECL models, the bank relies on a broad range of forward-looking information as economic inputs, such as:

- % GDP;
- CPI;
- Debt to disposable income;
- New vehicles;
- Prime interest rate;
- Insolvencies; and
- Housing Price Index.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Collateral valuation

To mitigate its credit risks on financial assets, the bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, guarantees, real estate, receivables, etc. The bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. To the extent possible, the bank uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on housing price indices.

Collateral repossessed

The bank's accounting policy under IFRS 9 remains the same as it was under IAS 39.

In its normal course of business, the bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

Write-offs

The bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written-off either partially or in their entirety only when the bank has stopped pursuing the recovery. If the amount to be written-off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Significant increase in credit risk

The accounting treatment of accounts that have transitioned from 0 to 30 days in arrears, to greater than 30 days in arrears are deemed to have a significant increase in credit risk, except where there are technical arrears, that is arrears that arise due to technical issues with the bank's system rather than the client not paying on due date.

Ranges of credit scores, termed credit score bands, have been established to further assess credit risk. A deterioration in the credit score band (i.e. moving to a lower credit score band) of one or more bands triggers a significant increase in credit risk. This results in the transition from Stage 1 to Stage 2 of the IFRS 9 impairment model.

The practical expedient of low credit risk assessment available under IFRS has not been used.

Definition of default

Default occurs when a material obligation of an obligor is overdue for more than 90 days.

Segmentation

The following elements have been considered in segmenting the portfolio so as to identify common credit risk characteristics:
- Product type; and
- External bureau scores.

Segmentation between the products of the bank formed a critical part of segmentation in order to ensure the use of homogenous groups in credit risk experience.

Forward-looking/macro-economic information

Three macro-economic scenarios (base, optimistic and downturn) have been defined based on the expectation of future macro-economic conditions. A probability percentage is assigned to each scenario based on management's expectations. The forecasts are used to adjust the PDs and LGDs used in the model to ensure these components are reflective of expected future macro-economic conditions.

Probability of cure

An allowance for the probability of cure out of stage 2 or 3 is required in the LGD model as such an allowance is not included in the probability of default used in the calculation of the expected credit loss.

The different outcomes experienced by an account in the defaulted state can be summarised as follows:
- Accounts can cure and settle the full outstanding balance;
- Accounts can cure and subsequently re-default; and
- Accounts can be written-off with recoveries from both collateral on security pledged on the loan, as well as recoveries on the unsecured exposure on the facility.

Probability of relapse

For accounts in Stage 2 or Stage 3, an allowance is made for the re-default of a cured account and the losses expected to be incurred under such an occurrence. The difference between the exposure at default and expected recoveries (i.e. the loss in the event of write-off) is applied to the proportion of accounts expected to re-default after experiencing a cure event.

The different outcomes experienced by an account in the defaulted state can be summarised as follows:
- Accounts can cure and settle the full outstanding balance;
- Accounts can cure and subsequently re-default; and
- Accounts can be written-off with recoveries from both collateral on security pledged on the loan, as well as recoveries on the unsecured exposure on the facility.

Credit impaired assets

Deal/facilities with objective evidence of impairment at the reporting date represents specific credit-impaired assets. These include deals that are 90 days and above in arrears or those where legal proceedings have been instituted, as well as any account that, based on information that comes to the attention of the bank, and which indicates that the account needs to be credit-impaired, together with those under debt review, restructured accounts within the last six months and payment arrangements.

Includes:

a) Significant financial difficulty of the issuer or the borrower;
b) A breach of contract, such as a default or past-due event;
c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
e) The disappearance of an active market for that financial asset because of financial difficulties.

Restructured assets

An approved restructured transaction allows for an extended term only. This would be in the situation where there is a modification due to the client being in distress. In this situation there may not be compensation for lost profit during the extended term (i.e. the total profit per the original contract will remain the same). However, this would not be considered as a substantial modification but rather will be considered when determining the expected credit loss.

If there is a modification of the profit that is not as a result of a credit event (i.e. not as a result of the client being in financial distress), this could be as a result of a renegotiation between the bank and the client. Then the bank would need to consider if the terms of the renegotiation would change the classification of the asset, and if it would, this would be considered substantial (e.g. including any embedded derivatives or exposure to equity, or changing the currency or counter-party). Otherwise, all other modifications would not be seen as substantial modifications giving rise to de-recognition.

6. PROPERTY AND EQUIPMENT

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. Capital expenditure which takes place in tranches is first capitalised to work in progress and subsequently moved to the relevant capital asset upon completion when the asset is available for use and subsequently depreciated. Equipment, motor vehicles, buildings, computer hardware, and leasehold improvements are depreciated on a straight-line basis. Land is not depreciated. The estimated useful lives are as follows:

Buildings – Owned	50 years
Buildings – Leased	15 years
Equipment	4 - 26 years
Vehicles	7 - 10 years
Computer software	3 - 5 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 profit or loss and other comprehensive income in the year that the asset is derecognised. Where residual value of buildings exceeds cost, no depreciation will be provided for.

7. 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 profit or loss and other 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 fair value less costs of disposal 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.

8. 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 profit or loss and other comprehensive income net of any reimbursement.

9. 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.

10. FINANCIAL INSTRUMENTS (EFFECTIVE FOR PERIODS PRIOR TO 1 JANUARY 2018)

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, advances and other receivables, cash and cash equivalents, regulatory balances with central bank, loans and borrowings, and accounts payable.

A financial instrument is initially recognised when the group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial assets to another party without retaining control or substantially all the risks and rewards of the assets. Purchases and sales of financial assets are accounted for at trade date, i.e. the date that the group commits itself to purchase or sell the assets. Financial liabilities are derecognised if the group's obligations specified in the contract expire or are discharged or cancelled.

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at their fair value plus, in the case of financial assets and liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

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 fair value based on the best available data for the valuation. Where the fair value cannot be reasonably determined, these are carried at cost. After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the other reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income.

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 profit or loss and other 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 profit or loss and other 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.

Held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost less impairment using an effective profit rate. Shariah-compliant returns are taken to the statement of profit or loss and other comprehensive income while non-compliant returns are taken to the charity and welfare account.

Investment securities (Effective 1 January 2018)

Investment securities which are listed, are initially measured at fair value for fair-value-through-profit-or-loss financial instruments plus incremental direct transaction costs for available-for-sale financial instruments and subsequently accounted for as fair value. Investment securities which are not listed on an active market are measured at cost and classified as available for sale financial instruments. Dividend income is recognised in profit or loss when the group becomes entitled to the dividend.

Investment securities which are not listed on an active market are measured at cost are now classified as fair value through comprehensive income as a result of the business model and solely payments of principal and profit assessments. Those securities that are listed are still measured at fair-value-through-profit-or-loss.

Fair value measurement

The group discloses financial instruments 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 32.6: 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, comprising letters of credit, letters of guarantees and confirmations. These guarantees are recognised as off-balance sheet items, measured at fair value upon initial recognition and are not re-measured subsequently.

11. IMPAIRMENT OF FINANCIAL ASSETS (EFFECTIVE FOR PERIODS PRIOR TO 1 JANUARY 2018)

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 found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

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 profit or loss and other 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 profit or loss and other comprehensive income.

12. 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/laws that have been enacted or substantively enacted at the reporting date. These can be offset if legally enforceable and relates to the same tax entity and authority.

Shareholder payments are net of dividend withholding tax at the relevant rate.

13. REVENUE RECOGNITION

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

The effective profit rate is applied to amortised cost and profit is recongised on this basis.

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 profit or loss and other comprehensive income.

Dividend income

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

14. 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 profit or loss and other 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 profit or loss and other 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.

15. CASH AND CASH EQUIVALENTS AND REGULATORY BALANCES (EFFECTIVE 1 JANUARY 2018)

Cash and cash equivalents comprise short-term negotiable securities, cash and short-term funds. Regulatory balances comprise our holdings in treasury bills as well as regulatory balances held with the central bank. From 1 January 2018, the bank measures this category at amortised cost as the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPP) on the principal amount outstanding; and
- Due to the short-term nature of the asset, no credit risk is associated with these assets.

16. 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 its probable future economic benefits will flow to the entity, and the cost can be measured reliably 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.

The bank assessed the usage of investment property with no immediate intention to change.

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

17. 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 is 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 profit or loss and other 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.

18. EMPLOYEE BENEFITS

Defined contribution plan

Obligations for contribution to defined contribution pension plans are recognised as an expense in the statement of profit or loss and other 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.

19. 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.

20. 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 applies:

- 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 2018

1. CAPITAL ADEQUACY

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 one wholly-owned subsidiary and one structured entity. The subsidiary and structured entity are consolidated for accounting purposes and group annual financial statements are prepared annually. The subsidiary and structured entity are consolidated for regulatory purposes in accordance with Regulation 36(2) of the Banks Act and Regulations. Also in terms of Regulation 43, the bank has made available, via its website, the capital adequacy composition calculation. This can be accessed via https://www.albaraka.co.za/Home/Interim_Report.

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:

Regulatory capital

	2018	2017
	R'000	**R'000**
Tier 1		
Share capital	**322 403**	322 403
Share premium	**82 196**	82 196
Retained income	**286 872**	236 762
Less: unappropriated profits	**(17 961)**	(14 601)
Unrealised gains and losses on available for sale items net of tax	**876**	1 460
Total capital & reserves	**674 386**	628 220
Less: prescribed deductions against capital and reserve funds	**(33 911)**	(26 159)
Total Tier 1 capital	**640 475**	602 061
Tier 2		
Stage 1 and stage 2	**9 832**	20 763
Sukuk	**200 000**	45 500
Total eligible capital	**850 307**	668 324
Capital adequacy ratios (Tier 1 %)	**12,2%**	13,2%
Capital adequacy ratios (Total %)	**16,2%**	14,7%
Base minimum regulatory requirement ratios (Total %)	**9,3%**	9,5%

The sukuk has been approved by the South African Reserve Bank as a qualifying tier II capital instrument.

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 2018, 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:

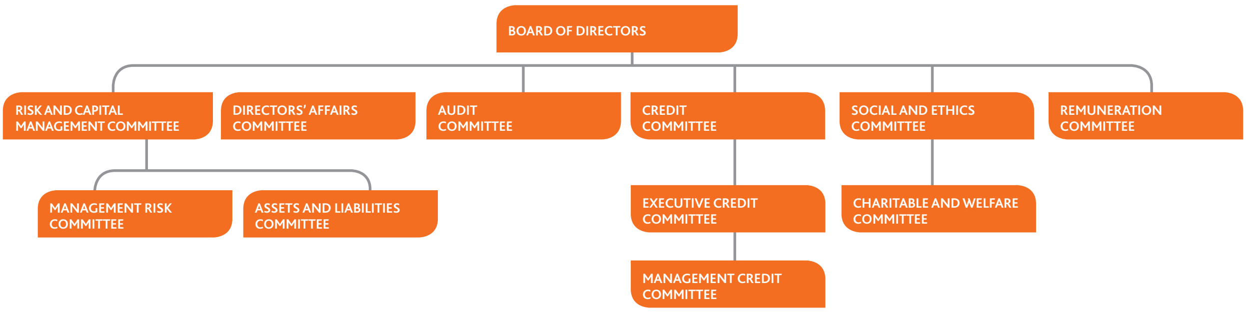
	CAPITAL REQUIREMENTS		RISK-WEIGHTED ASSETS	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
Credit risk	**406 411**	371 703	**4 393 630**	3 717 031
Operational risk	**51 926**	51 557	**561 365**	515 568
Equity risk	**2 259**	2 572	**24 425**	25 717
Market risk	**3 394**	1 469	**36 691**	14 697
Other risk	**21 130**	28 557	**228 432**	285 567
	485 120	455 858	**5 244 542**	4 558 580

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. In addition, the Shariah Supervisory Board has been delegated the responsibility of managing the Shariah risk which the bank faces. 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.

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;
- Reputational 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 profit or loss and other 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. These categories relate to International Accounting Standard (IAS) 39 and are relevant, as comparative information is still stated as IAS 39 exposures. Credit exposures are now in accordance with International Financial Reporting Standard (IFRS) 9 on stage credit risk allocation basis, which are stages 1, 2 and 3 (refer to note 9 - product exposure by stage).

- 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.

	GROUP AND COMPANY	
	2018	2017
	R'000	**R'000**
Credit exposures		
Advances to customers	**4 874 994**	4 633 877
Advances and balances with banks	**1 183 014**	556 070
Advances, treasury bills and regulatory balances	**542 480**	464 682
Letters of credit, guarantees and confirmations	**268 808**	280 236
Total exposure	**6 869 296**	5 934 865
Impairment of advances	**(15 460)**	(30 769)
Net exposure	**6 853 836**	5 904 096

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

	2018	2017
Geographical distribution of exposures		
Customer exposure		
KwaZulu-Natal	**2 567 477**	2 431 797
Gauteng	**1 718 122**	1 669 231
Western Cape	**858 203**	813 085
Total customer exposure	**5 143 802**	4 914 113
Bank exposure		
KwaZulu-Natal	**29 072**	19 610
Gauteng	**1 689 508**	997 260
United States of America	**6 914**	3 882
Total bank exposure	**1 725 494**	1 020 752
Total exposure	**6 869 296**	5 934 865
Industry distribution of exposures		
Banks and financial institutions	**1 725 494**	1 020 752
Individuals	**1 518 013**	1 524 599
Business and trusts	**3 625 789**	3 389 514
Total exposure	**6 869 296**	5 934 865

		GROUP AND COMPANY	
		2018	2017
		R'000	**R'000**
Product distribution analysis			
Property (Musharaka and Murabaha)		**3 753 855**	3 539 597
Equity finance		**1 089 135**	449 266
Instalment sales		**711 544**	650 105
Trade		**408 843**	442 289
Balances with local and central banks		**636 360**	571 486
Letters of credit		**1 579**	1 430
Guarantees and confirmations		**267 228**	278 806
Other		**752**	1 886
Total exposure		**6 869 296**	5 934 865

Residual contractual maturity of book			
Within 1 month	- equity finance	**111 019**	172 401
	- other	**568 540**	475 646
From 1 to 3 months	- equity finance	**461 760**	85 118
	- other	**366 280**	352 992
From 3 months to 1 year	- equity finance	**-**	191 747
	- other	**862 879**	1 050 522
From 1 year to 5 years	- equity finance	**516 356**	1 760 929
	- other	**1 987 499**	-
More than 5 years	- other	**1 994 963**	1 845 510
Total exposure		**6 869 296**	5 934 865

	GROUP AND COMPANY							
	Advances to customers		Advances and balances with banks		Other exposures		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
IAS 39								
Past due and individually impaired								
Gross amount	**26 329**	56 991	**-**	-	**-**	-	**26 329**	56 991
Specific impairment	**(5 627)**	(10 005)	**-**	-	**-**	-	**(5 627)**	(10 005)
Carrying amount	**20 702**	46 986	**-**	-	**-**	-	**20 702**	46 986
Past due but not impaired								
Standard category	**846 815**	1 080 651	**-**	-	**-**	-	**846 815**	1 080 651
Special mention category	**252 038**	212 609	**-**	-	**-**	-	**252 038**	212 609
Sub-standard category	**20 940**	38 961	**-**	-	**-**	-	**20 940**	38 961
Doubtful category	**24 756**	11 243	**-**	-	**-**	-	**24 756**	11 243
Loss category	**11 524**	13 806	**-**	-	**-**	-	**11 524**	13 806
Carrying amount	**1 156 073**	1 357 270	**-**	-	**-**	-	**1 156 073**	1 357 270
Neither past due nor impaired								
Carrying amount	**3 692 592**	3 219 616	**1 725 494**	1 020 752	**268 808**	280 236	**5 686 894**	4 520 604
Total carrying amount before portfolio impairment	**4 869 367**	4 623 872	**1 725 494**	1 020 752	**268 808**	280 236	**6 863 669**	5 924 860
Portfolio impairment - Standard category	**(9 832)**	(20 764)	**-**	-	**-**	-	**(9 832)**	(20 764)
Net carrying amount	**4 859 535**	4 603 108	**1 725 494**	1 020 752	**268 808**	280 236	**6 853 837**	5 904 098

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 time of the advance. Revolving facilities which have commercial property and/or residential property as collateral is assessed on a three-year interval based on independent valuations. In other instances, collateral is re-assessed after 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 73% invested in property transactions, 17% in instalment sale transactions (equipment and motor vehicle) and 10% 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 32.1).

Restructured advances are exposures which have been refinanced by the bank, due to the client experiencing financial distress on an existing exposure and where it has been ascertained that the client will be able to meet the amended modified repayment terms after the restructure. Restructured advances are classified as non-performing for the first six months after a restructure has occurred and are thereafter classified according to the bank's normal classification policies. The value of restructured advances at year end is R42,3 million (2017: R43,6 million).

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:

	GROUP AND COMPANY			
	Credit exposure	**Collateral cover**	**Credit exposure**	**Collateral cover**
	2018		2017	
	R'000	**R'000**	R'000	R'000
Standard asset	**3 855 468**	**3 272 786**	3 938 497	3 371 750
Special mention asset	**935 977**	**887 507**	574 380	540 105
Sub-standard asset	**28 817**	**25 815**	59 225	54 292
Doubtful asset	**35 605**	**32 863**	18 141	16 778
Loss asset	**19 127**	**15 226**	43 634	32 416
	4 874 994	**4 234 197**	4 633 877	4 015 341

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

	GROUP AND COMPANY	
	2018	2017
	R'000	**R'000**
Past due and individually impaired		
- Individuals	**12 831**	20 521
- Business and trusts	**13 498**	36 470
	26 329	56 991
Past due but not impaired		
- Individuals	**411 272**	519 434
- Business and trusts	**744 802**	837 836
	1 156 074	1 357 270

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

	GROUP AND COMPANY									
	Less than 30 days		30 to 60 days		60 to 180 days		Greater than 180 days		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Individuals	**369 373**	462 999	**18 472**	42 683	**15 624**	9 381	**7 802**	4 371	**411 272**	519 434
Business and trusts	**674 066**	714 854	**17 693**	73 202	**38 716**	38 487	**14 327**	11 293	**744 801**	837 836
	1 043 439	1 177 853	**36 165**	115 885	**54 340**	47 868	**22 128**	15 664	**1 156 073**	1 357 270

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	
		2018	2017
		R'000	R'000
Assets held under interest rate risk	- Treasury bills	**247 083**	223 744
Assets held under exchange rate risk	- Foreign currency held	**36 691**	14 698
		283 774	238 442

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 14.

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, whose sole assets are properties held in Athlone (Cape Town) and Kingsmead (Durban). In addition the bank owns 52 000 shares in Kiliminjaro Investments Proprietary Limited, a property-holding company, as well as 1 000 shares in Earthstone Investments (Pty) Ltd, also a property-holding company and 160 000 shares in Ahmed Al Kadi Private Hospital Limited, a hospital that does provide healthcare services to the general public. Both investment companies hold property in Durban, as well as the private hospital being situated 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. These investments were previously classified as available for sale assets and are currently classified as fair-value through-other-comprehensive-income. 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.

In terms of Regulation 43, the bank has made available, via its website, the disclosure on the liquidity coverage ratio. This can be accessed via www.albaraka.co.za/Files/LCR.pdf.

Refer to note 32.3 for details relating to liquidity risk management.

2.5. Profit 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 on advances in a predetermined ratio to the profit to be paid 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 policies and procedure manuals;
- The provision of staff training (including fraud awareness programmes) and ensuring that staff are well versed with 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. Reputational risk

Reputational risk, is a risk of loss resulting from damages to a firm's reputation, in lost revenue, increased operating capital or regulatory costs, or destruction of shareholder value. The bank manages this risk by employing adequately trained staff to ensure any risk of exposure to reputational risk is managed proactively.

3. PROPERTY AND EQUIPMENT

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**
Cost				
Land and buildings	**76 237**	76 237	**63 444**	63 444
Vehicles	**6 512**	6 295	**6 512**	6 295
Fittings, equipment and computers	**63 370**	55 561	**54 080**	50 791
Leasehold improvements	**20 846**	23 132	**20 139**	22 423
Capital work in progress	**3 568**	200	**3 568**	200
	170 533	161 425	**147 743**	143 153
Accumulated depreciation and impairment	**(54 358)**	(47 798)	**(91 128)**	(81 848)
Land and buildings	**-**	-	**(38 773)**	(34 543)
Vehicles	**(4 682)**	(4 104)	**(4 682)**	(4 104)
Equipment and computers	**(38 125)**	(31 941)	**(36 661)**	(31 869)
Leasehold improvements	**(11 551)**	(11 753)	**(11 012)**	(11 332)
Carrying amount	**116 175**	113 627	**56 615**	61 305
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 R19,0 million in 2018. The property was leased entirely to the bank. 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, starting from 2009. The property was independently valued at R136,6 million in 2018. Commercial property comprises land at a cost of R3,5 million (2017: R3,5 million) and buildings thereon at a cost of R69,1 million (2017: R69,1 million).	**72 582**	72 582		

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**
3. Land and buildings held under finance leases comprise Portion 6 of Erf 12445 Durban, Registration Division FU, Province of KwaZulu-Natal, in extent 3 316 square metres. The property is measured at the present value of the minimum lease payments and is fully depreciated over the period of the lease. The minimum lease payments were discounted taking into consideration an unguaranteed residual of R72 million (2017: R72 million) and calculating a rate intrinsic in the lease of 14,3% (2017:14,3%).			**24 671**	28 901
	76 237	76 237	**24 671**	28 901
Carrying amount at beginning of year	**76 237**	76 237	**28 901**	33 131
Additions	**-**	-	-	-
Depreciation	**-**	-	**(4 230)**	(4 230)
Carrying amount at end of year	**76 237**	76 237	**24 671**	28 901

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

The bank does not have any encumbered assets.

	Land and buildings	Vehicles	Fittings, equipment and computers	Leasehold improvements	Capital work in progress	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Movement in property and equipment: Carrying Amount						
Group						
2018						
Cost at beginning of year	**76 237**	**6 295**	**55 561**	**23 132**	**200**	**161 425**
Accumulated depreciation at beginning of year	**-**	**(4 104)**	**(31 941)**	**(11 753)**	**-**	**(47 798)**
Net carrying amount at beginning of year	**76 237**	**2 191**	**23 620**	**11 379**	**200**	**113 627**
Additions	**-**	**564**	**9 220**	**588**	**4 301**	**14 673**
Transfers	**-**	**-**	**414**	**682**	**(933)**	**163**
Disposals	**-**	**-**	**(63)**	**-**	**-**	**(63)**
Assets written-off	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation for the year	**-**	**(925)**	**(7 946)**	**(3 354)**	**-**	**(12 225)**
Net carrying amount at end of year	**76 237**	**1 830**	**25 245**	**9 295**	**3 568**	**116 175**
Cost at end of year	**76 237**	**6 512**	**63 370**	**20 846**	**3 568**	**170 533**
Accumulated depreciation at end of year	**-**	**(4 682)**	**(38 125)**	**(11 551)**	**-**	**(54 358)**
2017						
Cost at beginning of year	76 237	6 088	42 228	27 287	4 066	155 906
Accumulated depreciation at beginning of year	-	(3 600)	(25 493)	(12 425)	-	(41 518)
Net carrying amount at beginning of year	76 237	2 488	16 735	14 862	4 066	114 388
Additions	-	632	9 935	746	453	11 766
Transfers	-	-	3 565	623	(4 319)	(131)
Disposals	-	-	(22)	(321)	-	(343)
Assets written-off	-	-	-	(1 071)	-	(1 071)
Depreciation for the year	-	(929)	(6 593)	(3 460)	-	(10 982)
Net carrying amount at end of year	76 237	2 191	23 620	11 379	200	113 627
Cost at end of year	76 237	6 295	55 561	23 132	200	161 425
Accumulated depreciation at end of year	-	(4 104)	(31 941)	(11 753)	-	(47 798)

	Land and buildings	Vehicles	Fittings, equipment and computers	Leasehold improvements	Capital work in progress	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Movement in property and equipment: Carrying Amount						
Company						
2018						
Cost at beginning of year	**63 444**	**6 295**	**50 791**	**22 423**	**200**	**143 153**
Accumulated depreciation at beginning of year	**(34 543)**	**(4 104)**	**(31 869)**	**(11 332)**	**-**	**(81 848)**
Net carrying amount at beginning of year	**28 901**	**2 191**	**18 922**	**11 091**	**200**	**61 305**
Additions	**-**	**564**	**4 865**	**589**	**4 301**	**10 319**
Transfers	**-**	**-**	**251**	**682**	**(933)**	**-**
Disposals	**-**	**-**	**(63)**	**-**	**-**	**(63)**
Assets written-off	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation for the year	**(4 230)**	**(925)**	**(6 556)**	**(3 235)**	**-**	**(14 946)**
Net carrying amount at end of year	**24 671**	**1 830**	**17 419**	**9 127**	**3 568**	**56 615**
Cost at end of year	**63 444**	**6 512**	**54 080**	**20 139**	**3 568**	**147 743**
Accumulated depreciation at end of year	**(38 773)**	**(4 682)**	**(36 661)**	**(11 012)**	**-**	**(91 128)**
2017						
Cost at beginning of year	63 444	6 088	42 115	26 585	4 064	142 296
Accumulated depreciation at beginning of year	(30 313)	(3 600)	(25 444)	(12 122)	-	(71 479)
Net carrying amount at beginning of year	33 131	2 488	16 671	14 463	4 064	70 817
Additions	-	632	5 277	738	455	7 102
Transfers	-	-	3 565	623	(4 319)	(131)
Disposals	-	-	(22)	(321)	-	(343)
Assets written-off	-	-	-	(1 071)	-	(1 071)
Depreciation for the year	(4 230)	(929)	(6 569)	(3 341)	-	(15 069)
Net carrying amount at end of year	28 901	2 191	18 922	11 091	200	61 305
Cost at end of year	63 444	6 295	50 791	22 423	200	143 153
Accumulated depreciation at end of year	(34 543)	(4 104)	(31 869)	(11 332)	-	(81 848)

Refer to note 36 for changes in 2017 comparatives.
All disposals and write-offs reflected in the note above are at net carrying amounts.

	GROUP AND COMPANY	
	2018	2017
	R'000	**R'000**
4. INVESTMENT PROPERTIES		
Balance at beginning of year	**10 502**	10 502
Transfers	**(163)**	-
Balance at end of year	**10 339**	10 502

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.

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 R14,7 million as at 30 September 2018 which is in line with the group policy to obtain such valuations every three years.

The independent valuation referred to above, provides an indication of what the fair value of this property is.

The inputs into the valuation as applied by the independent valuator were location, surrounding environment and any improvements applied to the property. The valuator further considered sales of comparable properties in proximity to the investment property. Investment property would be classified in a level two category in the fair value hierarchy.

As investment property is classified as a non-financial asset, management has considered its highest and best use and has accordingly concluded not to adjust its fair value from that of the independent valuation referred to above.

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**
5. INTANGIBLE ASSETS				
Cost				
Computer software	**5 004**	7 865	**5 004**	7 865
Capitalised project costs	**45 825**	46 474	**45 825**	46 474
Capital work in progress	**16 503**	8 133	**16 503**	8 133
	67 332	62 472	**67 332**	62 472
Accumulated amortisation and impairment	**(30 340)**	(33 143)	**(30 340)**	(33 143)
Computer software	**(2 695)**	(5 278)	**(2 695)**	(5 278)
Capitalised project costs	**(27 645)**	(27 865)	**(27 645)**	(27 865)
	36 992	29 329	**36 992**	29 329

	Computer software	Capitalised project costs	Capital work in progress	Total
	R'000	R'000	R'000	R'000
Movement in intangible assets: Carrying Amount				
Group and Company				
2018				
Cost at beginning of year	**7 865**	**46 474**	**8 133**	**62 472**
Accumulated amortisation at beginning of year	**(5 278)**	**(27 865)**	**-**	**(33 143)**
Net carrying amount at beginning of year	**2 587**	**18 609**	**8 133**	**29 329**
Additions	**1 287**	**870**	**14 480**	**16 637**
Transfers	**-**	**6 110**	**(6 110)**	**-**
Disposals	**-**	**-**	**-**	**-**
Amortisation for the year	**(1 565)**	**(7 409)**	**-**	**(8 974)**
Net carrying amount at end of year	**2 309**	**18 180**	**16 503**	**36 992**
Cost at end of year	**5 004**	**45 825**	**16 503**	**67 332**
Accumulated amortisation at end of year	**(2 695)**	**(27 645)**	**-**	**(30 340)**

All disposals reflected in the note above are at net carrying amounts.

	Computer software	Capitalised project costs	Capital work in progress	Total
Group and Company				
2017				
Cost at beginning of year	6 756	38 384	6 799	51 939
Accumulated amortisation at beginning of year	(3 707)	(22 080)	-	(25 787)
Net carrying amount at beginning of year	3 049	16 304	6 799	26 152
Additions	1 109	1 927	7 365	10 401
Transfers	-	6 162	(6 031)	131
Disposals	-	-	-	-
Amortisation for the year	(1 571)	(5 784)	-	(7 355)
Net carrying amount at end of year	2 587	18 609	8 133	29 329
Cost at end of year	7 865	46 474	8 133	62 472
Accumulated amortisation at end of year	(5 278)	(27 865)	-	(33 143)

	COMPANY	
	2018	2017
	R'000	**R'000**

6. INVESTMENT IN AND AMOUNT DUE BY SUBSIDIARY COMPANY

Albaraka Properties Proprietary Limited is 100% (2017: 100%) owned by Albaraka Bank Limited.

The issued share capital of Albaraka Properties Proprietary Limited comprises 1 000 shares of R1 each (2017: 1 000 shares of R1 each).

	2018 R'000	2017 R'000
Shares at cost	**1**	1
Due by subsidiary	**20 147**	17 941
- Amounts owing by subsidiary	**85 176**	86 379
- Finance lease liability (note 33.2)	**(65 029)**	(68 438)
	20 148	17 942

The amount due by the subsidiary is profit-free and repayable on demand. 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.

Finance costs relate to the inter-company finance lease for R9,4 million (2017: R9,8 million).

Refer to note 36 for changes in 2017 comparatives.

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
7. DEFERRED TAX ASSET/(LIABILITY)				
Balance at beginning of year	**4 723**	2 117	**31 372**	26 634
Tax income recognised in profit or loss	**(9 721)**	2 800	**(8 015)**	4 937
Tax (expense) recognised in other comprehensive income	**84**	(89)	**84**	(89)
Deferred tax – prior year (underprovision)/ overprovision recognised in profit or loss	**244**	(105)	**244**	(110)
Balance at end of year	**(4 670)**	4 723	**23 685**	31 372
The deferred tax asset comprises the following:				
Temporary differences arising on finance lease	**-**	-	**11 300**	11 070
Temporary differences on financial assets	**(851)**	(1 102)	**(851)**	(1 102)
Impairment for doubtful advances	**(625)**	2 102	**(625)**	2 102
Leave pay provision	**2 503**	2 385	**2 503**	2 385
Portfolio impairment	**2 753**	5 814	**2 753**	5 814
Profit not paid to depositors	**11 161**	15 668	**11 161**	15 668
Other	**2 620**	257	**2 607**	243
Prepaid expenses	**(315)**	(267)	**(306)**	(259)
Intangible assets, property and equipment	**(21 720)**	(19 854)	**(4 661)**	(4 269)
Fair value on investments	**(196)**	(280)	**(196)**	(280)
	(4 670)	4 723	**23 685**	31 372

The expected manner of recovery of the deferred tax asset will be through the use thereof, at tax rates applicable to companies at the time of such recovery.

8. INVESTMENT SECURITIES

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Unit trust investments				
Fair value at beginning of year	**9 592**	8 849	**9 592**	8 849
Additions at cost	**83**	33	**83**	33
Fair value (loss)/gain	**(898)**	710	**(898)**	710
Fair value at end of year	**8 777**	9 592	**8 777**	9 592
Unlisted investments				
Kiliminjaro Investment Proprietary Limited at fair value	**4 227**	4 107	**4 227**	4 107
Earthstone Investments Proprietary Limited at fair value	**10 322**	10 070	**10 322**	10 070
Ahmed Al Kadi Private Hospital Limited at fair value	**1 099**	1 948	**1 099**	1 948
	24 425	25 717	**24 425**	25 717

The bank's investment in unit trusts comprise 441 055 units (2017: 437 166 units) in the Old Mutual Albaraka Equity Fund. The carrying value of this investment is R8,8 million (2017: R9,6 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 Investments Proprietary Limited and Earthstone Investments Proprietary Limited are property-owning companies, whilst Ahmed Al Kadi Private Hospital Limited is a hospital development that provides healthcare to the general public. The bank owns 52 000 shares (2017: 52 000 shares) of Kiliminjaro Investments, it purchased 1 000 shares in Earthstone Investments during 2014 and it purchased 160 000 shares in Ahmed Al Kadi Private Hospital in 2015. These investments are classified as available-for-sale financial instruments for the prior year and at fair value through comprehensive income for the current year. Kiliminjaro Investments Proprietary Limited and Earthstone Investments Proprietary Limited are measured at fair value. Ahmed Al Kadi Private Hospital is measured at its fair value. The bank currently has no intention to dispose of these assets.

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**
9. ADVANCES AND OTHER RECEIVABLES				
9.1. Sectoral analysis				
Advances to customers				
Property (Musharaka and Murabaha)	**3 753 855**	3 539 597	**3 753 855**	3 539 597
Instalment sale	**711 544**	650 105	**711 544**	650 105
Trade	**408 843**	442 289	**408 843**	442 289
Other	**752**	1 886	**752**	1 886
Gross advances to customers	**4 874 994**	4 633 877	**4 874 994**	4 633 877
Provision for impairment of doubtful advances	**(15 460)**	(30 769)	**(15 460)**	(30 769)
Net advances to customers after provisions	**4 859 534**	4 603 108	**4 859 534**	4 603 108
Advances to banks				
Equity finance	**1 089 135**	449 266	**1 089 135**	449 266
Net advances	**5 948 669**	5 052 374	**5 948 669**	5 052 374
Other receivables	**27 583**	58 444	**27 425**	58 293
	5 976 252	5 110 818	**5 976 094**	5 110 667

Included under property are Musharaka advances amounting to R3,744 million (2017: R3,528 million).
Included in other receivables is Rnil (2017: R36,4 million) receivable for the agreed sale of foreign currency.

	GROUP		COMPANY	
	2018	2017	**2018**	2017
9.2. Maturity analysis				
Advances to customers				
Within 1 month	**196 859**	195 158	**196 859**	195 158
From 1 month to 3 months	**280 059**	289 291	**280 059**	289 291
From 3 months to 1 year	**600 020**	723 860	**600 020**	723 860
From 1 year to 5 years	**1 970 130**	1 721 911	**1 970 130**	1 721 911
More than 5 years	**1 827 926**	1 703 657	**1 827 926**	1 703 657
	4 874 994	4 633 877	**4 874 994**	4 633 877
Equity finance				
Within 1 month	**111 019**	172 401	**111 019**	172 401
From 1 month to 3 months	**461 760**	85 118	**461 760**	85 118
From 3 months to 1 year	**-**	191 747	**-**	191 747
From 1 year to 5 years	**516 356**	-	**516 356**	-
	1 089 135	449 266	**1 089 135**	449 266

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
IFRS 9/ IAS 39:				
9.3.1. Specific impairments	**5 628**	10 005	**5 628**	10 005
Restated balance at beginning of year	**6 660**	5 953	**6 660**	5 953
Charge to profit for the year	**929**	4 333	**929**	4 333
Bad debts written-off	**(1 961)***	(281)	**(1 961)***	(281)
9.3.2. Portfolio impairment	**9 832**	20 764	**9 832**	20 764
Restated balance at beginning of year	**11 139**	20 734	**11 139**	20 734
(Release)/charge to profit for the year	**(318)**	30	**(318)**	30
Bad debts written-off	**(989)***	-	**(989)***	-
	15 460	30 769	**15 460**	30 769

* An amount of R1 784 793 that is still subject to enforcement activity.

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
IFRS 9 (Effective 1 January 2018):				
9.3.3. Expected Credit Loss				
Stage 1	**5 688**	-	**5 688**	-
Stage 2	**4 145**	-	**4 145**	-
Stage 3	**5 627**	-	**5 627**	-
	15 460	-	**15 460**	-
IAS 39:				
9.3.4. Impairment for credit losses				
Specific impairments	**-**	4 333	**-**	4 333
Portfolio impairments	**-**	30	**-**	30
Bad debts recovered	**-**	(372)	**-**	(372)
	-	3 991	**-**	3 991
IFRS 9 (Effective 1 January 2018):				
9.3.5. Impairment for credit losses				
Charge to impairment relating to stage 3	**929**	-	**929**	-
Reversal of credit impaired profits relating to stage 3	**(452)**	-	**(452)**	-
Release of impairment relating to stage 1 and 2	**(318)**	-	**(318)**	-
Bad debts recovered	**(260)**	-	**(260)**	-
	(101)	-	**(101)**	-

There was an increase of specific impairments of R0,9 million for the year which was a result of impairments of R4,1 million being raised and a further R3,2 million being released. During 2017, there was an increase of specific impairments of R4,3 million for the year which was a result of impairments of R5,9 million being raised and a further R1,6 million being released.

TRANSITION DISCLOSURE

The implementation of IFRS 9 resulted in a release of R12,9 million in provisions for the impairment of financial assets which had the following impact on the financial information as at 1 January 2018:

Statement of Financial Position:
The net advances and receivables increased by R12,9 million as a result of a release in provisions from IAS 39 to IFRS 9.

The provisions have decreased by R12,9 million from IAS 39 impairment of R30,7 million to IFRS 9 impairment of R17,8 million as at 1 January 2018.

Retained income increased by R4,5 million in lieu of the release of the provision.

Deposits from customers increased by R4,7 million. Per Shariah banking principles, the income that is earned from advances is shared between the shareholders and the depositors. The decrease in the provision indicated that the income previously earned from advances should be assessed as higher under IFRS 9 as opposed to IAS 39. Therefore an adjustment is required to both retained earnings and deposits from customers in the same ratio as the sharing of income from advances.

Capital Adequacy:
The tier 1 capital ratio has increased by 0,1% and the total capital ratio has decreased by 0,1% as a result of the IFRS 9 adjustment.

Statement of profit and loss and other comprehensive income:
There was no impact to the statement of comprehensive income, as the bank has elected to adjust retained earnings based on the transitional provision as described in the standard.

Taxation
The overall tax impact was R3,7 million. It was made up of a deferred tax liability increasing by R5,5 million and the current tax liability decreasing by R1,8 million.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at January 2018 is as follows:

	IAS 39	Increase/ (decrease)	TOTAL - IFRS 9	IFRS 9	IFRS 9	IFRS 9
	R'000	R'000	R'000	R'000	R'000	R'000
IAS 39 – IFRS 9 January 2018				**Stage 1**	**Stage 2**	**Stage 3**
	20 764	(9 625)	11 139	5 430	5 709	-
	10 005	(3 346)	6 659	-	-	6 659
	30 769	**(12 971)**	17 798	5 430	5 709	6 659
Taxation impact	-	**3 733**	-	-	-	-
Total IFRS 9 after tax	-	**9 238**	-	-	-	-
Transfer to deposits from customers	-	**4 683**	-	-	-	-
Retained earnings adjustment	-	**4 555**	-	-	-	-

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows opposite.

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
IFRS 9				
December 2018				
Opening balance	5 431	5 709	6 659	17 799
Impact on stage classification	3 026	(5 766)	1 076	(1 664)
Transfer out of stage 1	(230)	190	40	-
Transfer out of stage 2	2 373	(2 690)	317	-
Transfer out of stage 3	-	-	-	-
Impact of stage transfers	883	(3 266)	719	(1 664)
Settlement/write-off of advances	(3 176)	(847)	(3 384)	(7 407)
New advances	407	5 048	1 277	6 732
Closing ECL	5 688	4 144	5 628	15 460
IFRS 9				
December 2018				
Opening exposure	3 413 692	1 558 052	110 769	5 082 513
Movement in exposure	1 233 401	(320 615)	(31 170)	881 616
Closing exposure	4 647 093	1 237 437	79 599	5 964 129

Critical judgements in determining ECL are those that are embedded in the calibration of the ECL models, and include the definition of default and the levels at which the significant increase in credit risk (SICR) thresholds were established. Following the initial transition to IFRS 9, changes in expected credit loss provisions will be reported in the statement of profit or loss and other comprehensive income. The amounts reported may experience more volatility from period to period than that previously experienced under IAS 39 due to factors such as:

- Transfers to/from stage 1, 2 and 3;
- Changes in portfolio; and
- Changes in forward-looking macro-economic variables.

A forecast macro-economic downturn will have several impacts on ECL, including:

- Increasing PD, driving higher stage 1 and 2 ECL and potentially leading to a transfer of assets from stage 1 to stage 2. Reducing collateral values will increase LGD.

Product exposure by stage (Effective January 2018)

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
Exposure				
Legal charges	-	-	465	465
Ijarah motor vehicle	9 313	1 700	-	11 013
Musharaka commercial	1 318 265	531 923	26 762	1 876 950
Murabaha equipment	236 440	14 126	1 090	251 656
Murabaha property	6 174	3 236	-	9 410
Murabaha motor vehicle	344 394	100 132	4 350	448 876
Musharaka residential	1 261 323	567 721	38 737	1 867 781
Murabaha trade	382 049	18 599	8 195	408 843
Equity finance	1 089 135	-	-	1 089 135
Total exposure	**4 647 093**	**1 237 437**	**79 599**	**5964 129***

* The amounts included above include current outstanding principal and profit receivable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Transition impact on classification (Effective January 2018)

	Fair value through other comprehensive income	Amortised cost	Fair value through profit and loss	Total
	R'000	R'000	R'000	R'000
IFRS 9				
January 2018				
Assets				
Advances and receivables	-	5 065 345	-	5 065 345
Forward exchange contract	-	-	36 406	36 406
Investment securities	16 125	-	9 592	25 717
Cash and cash equivalents	-	246 196	-	246 196
Regulatory balances	-	337 650	-	337 650
	16 125	5 649 191	45 998	5 711 314
Liabilities				
Deposits from customers	-	5 082 712	-	5 082 712
Sukuk	-	45 889	-	45 889
Accounts payable	-	55 991	-	55 991
Welfare and charitable funds	-	14 981	-	14 981
	-	5 199 573	-	5 199 573

	Advances and receivables	Available for sale	Held to maturity	Fair value through profit and loss	Total
	R'000	R'000	R'000	R'000	R'000
IAS 39					
December 2017					
Assets					
Advances and receivables	5 052 374	-	-	-	5 052 374
Forward exchange contract	-	-	-	36 406	36 406
Investment securities	-	16 125	-	9 592	25 717
Cash and cash equivalents	246 196	-	-	-	246 196
Regulatory balances	113 906	-	223 744	-	337 650
	5 412 476	16 125	223 744	45 998	5 698 343
Liabilities					
Deposits from customers	-	-	5 078 029	-	5 078 029
Sukuk	-	-	45 889	-	45 889
Accounts payable	-	-	55 991	-	55 991
Welfare and charitable funds	-	-	14 981	-	14 981
	-	-	5 194 890	-	5 194 890

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**
10. SOUTH AFRICAN REVENUE SERVICE RECEIVABLE				
Income tax	-	1 215	-	1 158
	-	1 215	-	1 158
11. REGULATORY BALANCES				
Government and other stock	**247 083**	223 744	**247 083**	223 744
Balances with Central Bank	**127 839**	113 906	**127 839**	113 906
	374 922	337 650	**374 922**	337 650

These balances represent mandatory reserve deposits for liquidity requirements and are therefore not available for use in the bank's daily operations.

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
12. CASH AND CASH EQUIVALENTS				
Cash on hand	**33 674**	12 602	**33 469**	12 360
Balances with Central Bank	**167 559**	127 032	**167 559**	127 032
Placements with other banks	**93 879**	106 804	**93 879**	106 804
	295 112	246 438	**294 907**	246 196
The following banking facilities are available to the group:				
Settlement facilities	**73 222**	61 776	**73 222**	61 766
	73 222	61 776	**73 222**	61 766
13. SHARE CAPITAL AND SHARE PREMIUM				
Authorised share capital				
100 000 000 (2017: 100 000 000) ordinary shares of R10 each	**1 000 000**	1 000 000	**1 000 000**	1 000 000
Issued and fully paid share capital				
32 240 260 (2017: 32 240 260) ordinary shares of R10 each	**322 403**	322 403	**322 403**	322 403
Share premium				
Balance at beginning of year	**82 196**	82 196	**82 196**	82 196
Balance at end of year	**82 196**	82 196	**82 196**	82 196

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**

14. WELFARE AND CHARITABLE FUNDS

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Gross income from non-Islamic activities during the year	**22 638**	19 438	**22 638**	19 438
Normal tax thereon	**(4 301)**	(2 194)	**(4 301)**	(2 194)
Net income from non-Islamic activities during the year	**18 337**	17 244	**18 337**	17 244
Donations and advances	**(13 287)**	(13 863)	**(13 287)**	(13 863)
Balance at beginning of year	**14 981**	11 600	**14 981**	11 600
Balance at end of year	**20 031**	14 981	**20 031**	14 981

15. ACCOUNTS PAYABLE

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Sundry creditors	**26 934**	48 149	**26 886**	48 104
Accruals	**13 076**	8 233	**12 249**	7 887
	40 010	56 382	**39 135**	55 991

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.
Also included in sundry creditors is an amount of Rnil (2017: R27,9 million) payable for foreign currency purchased.

16. SOUTH AFRICAN REVENUE SERVICE PAYABLE

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Income tax	**1 032**	-	**1 086**	-
Value Added Taxation	**446**	76	**264**	544
	1 478	76	**1 350**	544

Payable to the South African Revenue Services in terms of Value Added Taxation are settled within 30 days to avoid penalties and interest.

17. PROVISION FOR LEAVE PAY

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Balance at beginning of year	**8 517**	7 408	**8 517**	7 408
Accrued during the year	**7 447**	9 081	**7 447**	9 081
Utilised during the year	**(7 024)**	(7 972)	**(7 024)**	(7 972)
Balance at end of year	**8 940**	8 517	**8 940**	8 517

18. DEPOSITS FROM CUSTOMERS

The bank's deposit products include participation investment accounts, monthly investment plans, hajj saving schemes, regular income provider accounts, current accounts, guarantee deposit accounts, tax-free saving accounts, corporate saver accounts, as well as a premium investment product. Refer to note 32.3 for more detail.

From 1 January 2018, the bank measures deposits from customers at amortised cost as both of the following conditions are met:

- The financial liability is held within a business model with the objective to hold financial liabilities in order to collect contractual cash flows;
- The contractual terms of the financial liability give rise on specified dates to cash flows that are solely payments of principal and profit (SPPP) on the principal amount outstanding.

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**

19. SUKUK

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Sukuk capital	**200 000**	45 500	**200 000**	45 500
Sukuk profit payable	**1 667**	379	**1 687**	389
	201 667	45 879	**201 687**	45 889

The Sukuk investment product was launched in October 2016 with an initial investment of R30,3 million, being the first tranche in a R200 million issuance to take place in due course. The Sukuk investment product qualifies as a Tier II capital instrument in terms of Basel III with a 10-year maturing period. The Albaraka Sukuk Trust was formed with the sole purpose of administering the issuance and management of the Sukuk investment product to the Sukuk certificate holders. Profits are paid monthly and the R1,7 million (2017: R379 K) profit payable balance represents the December profit accrual which was paid in January 2019 (2017: January 2018).

20. 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. Refer to note 32.3 for more detail.

21. NET NON-ISLAMIC INCOME

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Non-islamic income	**22 638**	19 438	**22 638**	19 438
	22 638	19 438	**22 638**	19 438
Amount transferred to welfare and charitable funds	**(22 638)**	(19 438)	**(22 638)**	(19 438)
	-	-	**-**	-

22. FEE AND COMMISSION INCOME

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Service fees	**19 719**	20 171	**19 719**	20 171
Commission received on sale of unit trusts	**8 695**	8 500	**8 695**	8 500
Profit from foreign currency trading	**17 508**	15 682	**17 508**	15 682
Management fee from subsidiary	**-**	-	**243**	232
	45 922	44 353	**46 165**	44 585

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**

23. OTHER OPERATING INCOME

Property rental income	**-**	-	**240**	240
Net parking income from investment property	**933**	983	**-**	-
Dividend income	**1 436**	1 368	**8 436**	10 368
Surplus on disposal of property and equipment	**156**	710	**156**	710
Other	**1 817**	1 658	**1 817**	1 658
	4 342	4 719	**10 649**	12 976

24. OPERATING EXPENDITURE

Operating expenditure includes:				
Auditor's remuneration				
Audit fees				
- current year	**3 153**	2 257	**3 090**	2 216
- prior year under provision	**521**	10	**519**	10
Fees for other services				
- Other	**927**	200	**909**	200
	4 601	2 467	**4 518**	2 426
Consultancy fees	**6 546**	5 818	**6 134**	5 770
Depreciation of property and equipment	**12 225**	10 982	**14 946**	15 069
Amortisation of intangible assets	**8 974**	7 355	**8 974**	7 355
Assets written-off	**-**	1 071	**-**	1 071
Unit trust expense	**-**	7 600	**-**	7 600
Operating lease charges	**4 706**	4 514	**6 001**	5 322
Research costs	**322**	146	**322**	146
Staff costs	**112 473**	105 381	**112 473**	105 381
Directors' emoluments	**11 110**	9 790	**11 110**	9 790
Executive services	**8 158**	7 953	**8 158**	7 953
Non-executive directors' fees	**2 952**	1 837	**2 952**	1 837

	2018			2017		
	Salary	Other benefits	Total	Salary	Other benefits	Total
	R'000	R'000	R'000	R'000	R'000	R'000
24.1 Executive services						
Company only						
SAE Chohan - Chief executive	**2 521**	**711**	**3 232**	2 361	359	2 720
MJD Courtiade - Chief risk executive	**650**	**450**	**1 100**	1 949	81	2 030
A Ameed - Financial director	**1 540**	**220**	**1 760**	1 441	104	1 545
M Kaka - Chief operating officer	**1 801**	**265**	**2 066**	1 494	164	1 658
	6 512	**1 646**	**8 158**	7 245	708	7 953

Salary and other benefits are short-term benefits as classified per IAS 24.
On 01 April 2018, Mr MJD Courtiade retired and joined the board as a non-executive director.

	COMPANY	
	2018	2017
	R'000	**R'000**
24.2. Non-executive directors' fees		
AA Yousif	**462**	298
MJD Courtiade	**223**	-
F Kassim	**286**	188
A Lambat	**376**	271
MS Paruk	**417**	281
YM Paruk	**-**	57
SA Randeree	**412**	249
J Cane	**227**	-
MG McLean	**-**	50
NJ Kunene	**150**	191
YGH Suleman	**399**	252
	2 952	1 837

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**

25. TAXATION

Normal - current year	**16 341**	28 477	**14 493**	26 603
- prior year	**219**	(363)	**219**	(363)
Attributable to income from non-Islamic activities (refer to accounting policy 13 and note 21)				
- current year	**(4 326)**	(2 388)	**(4 326)**	(2 388)
- prior year	**24**	194	**24**	194
Deferred tax - current year	**9 721**	(2 800)	**8 015**	(4 937)
- prior year	**(244)**	105	**(244)**	110
Taxation attributable to Islamic activities	**21 735**	23 225	**18 181**	19 219

	2018	2017	**2018**	2017
	%	**%**	**%**	**%**
Effective tax rate	**25,0**	31,3	**22,3**	28,0
Adjustable items:				
Non-taxable income	**0,3**	1,1	**2,7**	4,4
Non-deductible expenditure	**2,7**	(4,3)	**3,0**	(4,3)
Current tax adjustment - prior year	**(0,3)**	(0,2)	**(0,3)**	(0,2)
Deferred tax adjustment - prior year	**0,3**	0,1	**0,3**	0,1
South African Companies tax rate	**28,0**	28,0	**28,0**	28,0

Non-taxable income is exempt income from learnerships and dividends. Non-deductible expenses are items that are capital in nature and depreciation which is not allowed for tax purposes.

	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**

26. FAIR VALUE (LOSS)/GAIN

Fair value (loss)/gain on FVOCI	**(477)**	49	**(477)**	49
Deferred tax on FVOCI	**109**	(5)	**109**	(5)
Fair value gain/(adjustment) on forward exchange contract	**(300)**	300	**(300)**	300
Deferred tax on forward exchange contract	**84**	(84)	**84**	(84)
	(584)	260	**(584)**	260

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**
27. EARNINGS PER SHARE				
Basic and diluted earnings per share are calculated on after tax income attributable to ordinary shareholders and a weighted average number of 32 240 260 (2017: 32 240 260) ordinary shares in issue during the year (cents)	**202,5**	157,9		
Headline earnings per share are calculated on headline earnings and a weighted number of 32 240 260 (2017: 32 240 260) ordinary shares in issue during the year (cents)	**202,2**	161,7		
Headline earnings per share are derived from:				
Profit for the year	**65 292**	50 917		
(Loss)/profit arising on disposal of property and equipment	**(100)**	142		
Write-off of property, equipment and intangible assets	**-**	1 071		
	65 192	52 130		
28. DIVIDENDS				
A dividend of 55 cents per share (2017: 50 cents) was paid on 27 July 2018 to shareholders registered on the shareholders register of the bank at close of business on 06 July 2018.	**17 732**	16 120	**17 732**	16 120
29. STATEMENT OF CASH FLOWS				
29.1 Cash generated from operations				
Profit before taxation	**87 027**	74 142	**81 465**	68 729
Adjustment for non-cash items and investment income:				
Depreciation of property and equipment	**12 225**	10 982	**14 946**	15 069
Dividend income	**(1 436)**	(1 368)	**(8 436)**	(10 368)
Unrealised forex (gains)/losses	**(2 130)**	(1 782)	**(2 130)**	(1 782)
Amortisation of intangible assets	**8 974**	7 355	**8 974**	7 355
(Profit)/loss on disposal of property and equipment	**(101)**	142	**(101)**	142
Assets written-off	**-**	1 071	**-**	2 706
Straight-lining of operating leases	**222**	34	**222**	34
Provision for leave pay	**423**	1 109	**423**	1 109
Impairment for credit losses	**(101)**	(4 363)	**(101)**	(4 363)
Inter-system write-off	**901**	-	**901**	-
Fair value loss/(gain) on financial instruments	**898**	(710)	**899**	(710)
	106 902	86 612	**97 062**	77 921

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**
29.2. Changes in working capital				
Increase in deposits from customers	**766 270**	458 693	**766 270**	458 693
Increase in Sukuk investment	**155 788**	15 200	**155 798**	15 200
(Increase)/decrease in accounts payable	**(28 966)**	37 120	**(30 043)**	37 632
Increase in welfare and charitable funds	**9 352**	5 573	**9 352**	5 573
(Increase) in advances and other receivables	**(865 632)**	(460 221)	**(865 625)**	(460 219)
Increase in capital reserves	**2 679**	-	**2 679**	-
(Increase) in regulatory balances	**(37 272)**	(42 692)	**(37 272)**	(42 692)
	2 219	13 673	**1 159**	14 187
29.3. Taxation paid				
Amount receivable at beginning of year	**1 215**	3 345	**1 158**	3 290
Amount charged to profit for the year	**(12 258)**	(25 918)	**(10 410)**	(24 044)
Amount charged to welfare and charitable funds	**(4 302)**	(2 194)	**(4 302)**	(2 194)
Amount payable/(receivable) at end of year	**1 032**	(1 215)	**1 086**	(1 158)
	(14 313)	(25 982)	**(12 468)**	(24 106)
29.4. Dividends paid				
Amount outstanding at beginning of year	**(1 181)**	(1 053)	**(1 181)**	(1 053)
Dividends declared and paid	**(17 732)**	(16 120)	**(17 732)**	(16 120)
Amount outstanding at end of year	**1 224**	1 181	**1 224**	1 181
	(17 689)	(15 992)	**(17 689)**	(15 992)
29.5. Purchase of property and equipment				
Vehicles	**(564)**	(632)	**(564)**	(632)
Equipment and computers	**(9 220)**	(9 935)	**(4 865)**	(5 276)
Leasehold improvements	**(588)**	(746)	**(589)**	(2 374)
Work in progress	**(4 301)**	(453)	**(4 301)**	(455)
	(14 673)	(11 766)	**(10 319)**	(8 737)
29.6. Purchase of intangible assets				
Computer software	**(1 287)**	t	**(1 287)**	(1 109)
Capitalised project costs	**(870)**	(1 927)	**(870)**	(1 927)
Work in progress	**(14 480)**	(7 365)	**(14 480)**	(7 365)
	(16 637)	(10 401)	**(16 637)**	(10 401)

Refer to note 36 for changes in 2017 comparatives.

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
30. LETTERS OF CREDIT, GUARANTEES AND CONFIRMATIONS				
Guarantees and confirmations	**267 229**	278 806	**267 229**	278 806
Letters of credit	**1 579**	1 430	**1 579**	1 430
	268 808	280 236	**268 808**	280 236

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.

31. CAPITAL COMMITMENTS

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Authorised and contracted for	**197**	227	**197**	227
- Property and equipment	**197**	227	**197**	227

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

32. FINANCIAL INSTRUMENTS

32.1. Credit risk - maximum exposure to credit risk

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Advances to customers (note 9.1)	**4 874 994**	4 633 877	**4 874 994**	4 633 877
Advances and balances with banks	**1 183 014**	556 070	**1 183 014**	556 070
Advances and balances with Central Bank	**542 480**	464 682	**542 480**	464 682
Letters of credit, guarantees and confirmations	**268 808**	280 236	**268 808**	280 236
	6 869 296	5 934 865	**6 869 296**	5 934 865

32.2. Currency risk

The group's exposure to currency risk was as follows:

	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Cash and cash equivalents				
- EUR	**2 071**	1 403	**2 071**	1 403
- GBP	**966**	853	**966**	853
- SAR	**379**	412	**379**	412
- USD	**32 491**	11 517	**32 491**	11 517
- Others	**783**	513	**783**	513
	36 690	14 698	**36 690**	14 698

Based on the bank's year end foreign currency holdings a 1% fluctuation in the exchange rate will result in a R367 K (2017: R147 K) foreign exchange gain or loss. The bank does not speculate in currency fluctuations and therefore does not hold any stock for this purpose.

32.3. 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	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 Years	More than 5 years
	R'000	R'000	R'000	R'000	R'000	R'000
Group						
2018						
Assets						
Advances and other receivables	5 976 252	312 475	751 014	613 811	2 486 486	1 812 466
Investment securities	24 425	-	-	-	-	24 425
Cash and cash equivalents and regulatory balances	670 034	382 374	17 823	141 998	-	127 839
	6 670 711	694 849	768 837	755 809	2 486 486	1 964 730
Liabilities						
Deposits from customers	5 844 299	2 263 322	1 101 926	2 437 241	1 950	39 860
Sukuk	201 667	-	-	-	201 667	-
Accounts payable	40 010	23 320	1 562	780	-	14 348
Letters of credit, guarantees and confirmations	268 807	22 983	68 399	120 861	17 368	39 196
	6 354 783	2 309 625	1 171 887	2 558 882	220 985	93 404
Net liquidity gap	315 928	(1 614 776)	(403 050)	(1 803 073)	2 265 501	1 871 326
Group						
2017						
Assets						
Advances and other receivables	5 110 818	422 414	375 845	917 760	1 721 911	1 672 888
Investment securities	25 717	-	-	-	-	25 717
Cash and cash equivalents and regulatory balances	584 088	252 436	9 892	207 854	-	113 906
	5 720 623	674 850	385 737	1 125 614	1 721 911	1 812 511
Liabilities						
Deposits from customers	5 092 593	2 115 416	834 919	2 083 328	2 973	55 957
Sukuk	45 879	45 879	-	-	-	-
Accounts payable	70 946	53 688	488	2 203	-	14 567
Letters of credit, guarantees and confirmations	280 236	40 654	53 809	118 808	39 018	27 947
	5 489 654	2 255 637	889 216	2 204 339	41 991	98 471
Net liquidity gap	230 969	(1 580 787)	(503 479)	(1 078 725)	1 679 920	1 714 040

The liquidity disclosure of the Sukuk is based on the terms and conditions which were approved by the South African Reserve Bank.
All of the amounts above are presented on a discounted basis.

32.4. Intrinsic rate risk

Loans and borrowings subject to intrinsic rate risk

	Intrinsic rate	Maturity	2018 R'000	2017 R'000
	14,3%	2024		
Current portion - less than 12 months			**12 980**	12 018
Non-current portion - greater than 12 months			**52 049**	56 420
Total obligations under finance leases (note 33.2)			**65 029**	68 438

Intrinsic rate risk is limited to the finance lease between the bank and its wholly-owned subsidiary.

32.5. Accounting classification

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 overleaf 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

	Advances and receivables	FVOCI/ Available for sale	Held to maturity	Amortised cost	Fair value through profit and loss	Carrying amount
	R'000	R'000	R'000	R'000	R'000	R'000
Group						
2018						
Assets						
Advances	-	-	-	**5 948 669**	-	**5 948 669**
Forward exchange contract	-	-	-	-	-	-
Investment securities	-	**15 648**	-	-	**8 777**	**24 425**
Cash and cash equivalents	-	-	-	**295 112**	-	**295 112**
Regulatory balances	-	-	-	**374 922**	-	**374 922**
	-	**15 648**	-	**6 618 703**	**8 777**	**6 643 128**
Liabilities						
Deposits from customers	-	-	-	**5 844 299**	-	**5 844 299**
Sukuk	-	-	-	**201 667**	-	**201 667**
Accounts payable	-	-	-	**40 010**	-	**40 010**
	-	-	-	**6 085 976**	-	**6 085 976**
Group						
2017						
Assets						
Advances	5 052 374	-	-	-	-	5 052 374
Forward exchange contract	-	-	-	-	36 406	36 406
Investment securities	-	16 125	-	-	9 592	25 717
Cash and cash equivalents	246 438	-	-	-	-	246 438
Regulatory balances	113 906	-	223 744	-	-	337 650
	5 412 718	16 125	223 744	-	45 998	5 698 585
Liabilities						
Deposits from customers	-	-	-	5 078 029	-	5 078 029
Sukuk	-	-	-	45 879	-	45 879
Accounts payable	-	-	-	70 944	-	70 944
	-	-	-	5 194 852	-	5 194 852

32.6. 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 fair value of Kiliminjaro Investments Proprietary Limited, Earthstone Investments Proprietary Limited and Ahmed Al Kadi Private Hospital Limited were derived from observable market data, i.e. square metres and prices from comparable buildings in similar locations, by the valuation using multiples technique.

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

	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Group				
2018				
Financial assets				
- Amortised cost	**-**	**6 618 703**	**-**	**6 618 703**
- Fair value through other comprehensive income	**-**	**15 648**	**-**	**15 648**
- Fair value through profit and loss	**8 777**	**-**	**-**	**8 777**
	8 777	**6 634 351**	**-**	**6 643 128**
Financial liabilities				
- Amortised cost	**-**	**6 085 976**	**-**	**6 085 976**
	-	**6 085 976**	**-**	**6 085 976**
Group				
2017				
Financial assets				
- Advances and receivables	-	5 412 718	-	5 412 718
- Available-for-sale	-	16 125	-	16 125
- Held to maturity	-	223 744	-	223 744
- Fair value through profit and loss	45 998	-	-	45 998
	45 998	5 652 587	-	5 698 585
Financial liabilities				
- Amortised cost	-	5 194 852	-	5 194 852
	-	5 194 852	-	5 194 852

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	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**
33. LEASES				
Operating leases				
33.1. Leases as lessee				
Non-cancellable operating lease rentals payable are as follows:				
Less than one year	**5 306**	3 828	**6 665**	5 122
Between one and five years	**13 974**	971	**13 974**	971
	19 280	4 799	**20 639**	6 093

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. Operating lease rentals are accounted for on a straight-line basis over the period of the lease.

	2018		2017	
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
	R'000	**R'000**	**R'000**	**R'000**
Finance leases				
33.2. Leases as lessee-company				
Less than one year	**13 851**	12 980	**12 825**	12 018
Between one and five years	**67 409**	44 243	**62 416**	40 966
More than five years	**16 737**	7 806	**35 582**	15 454
Total minimum lease payments	**97 997**	65 029	**110 823**	68 438
Less amounts representing finance charges	**(32 968)**	-	**(42 385)**	-
Present value of minimum lease payments - (note 6)	**65 029**	65 029	**68 438**	68 438

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% (2017: 14,3%) after considering the unguaranteed residual value of R72 million (2017: R72 million) which will be realised at the end of the lease.

34. 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 R10,6 million (2017: R10,0 million). Executives portion of the contribution amounted to R650 676 for the year (2017: R724 500).

35. RELATED PARTY INFORMATION

The holding company of Albaraka Bank Limited at 31 December 2018 is Al Baraka Banking Group B.S.C. which is a company registered in the Kingdom of Bahrain and which holds 64,5% (2017: 64,5%) of the company's ordinary shares.

DCD Holdings (SA) Proprietary Limited and DCD London & Mutual Plc, a company incorporated in England and Wales, jointly hold 12,6% (2017: 12,6%) of the company's ordinary shares.

Timewest Investments Proprietary Limited, a company incorporated in South Africa, holds 7,7% (2017: 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. Two of the bank's directors are also trustees of the trust. The Iqraa Trust is not consolidated.

The Albaraka Sukuk Trust is a registered trust, formed with the intention of the administration of the Sukuk which was issued by Albaraka Bank Limited. The beneficiaries of the trust are the Sukuk certificate holders. The trust has five trustees comprising an institutional trustee, a chartered accountant, an individual from the business community, an advocate, as well as one of the bank's directors. The only exposure between the Albaraka Sukuk Trust and the bank currently relates to the Sukuk investment as disclosed under note 19.

The subsidiary of the bank, Albaraka Properties (Proprietary) Limited, and the related inter-company balances are identified in note 6. The bank also made finance lease repayments amounting to R12 825 409 (2017: R11 875 378) 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 22. A dividend of R7 000 000 (2017: R9 000 000) was declared during the year.

The directors are considered the key management personnel and the remuneration paid to the directors is disclosed in note 24.

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 advances to executive and non-executive directors, are disclosed below:

	COMPANY	
	2018	2017
	R'000	**R'000**
Property finance - Musharaka and Murabaha		
Balance outstanding at beginning of year	**17 965**	21 016
Advances granted during the year	**-**	-
Repayments during the year	**(4 820)**	(5 008)
Profit earned	**1 592**	1 957
	14 737	17 965
Profit mark-up range for the year	**5,0%-10,75%**	5,0%-11,0%

The profit mark-up of 5% is in respect of advances to executive directors at subsidised rates which, at year-end amounted to R2 346 646 (2017: R2 611 937).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	COMPANY	
	2018	2017
	R'000	**R'000**

Balances owing by/(to) related parties, including advances to executive and non-executive directors, are disclosed below (continued):

Instalment sale		
Balance outstanding at beginning of year	**2 243**	3 069
Advances granted during the year	**-**	840
Repayments during the year	**(1 079)**	(2 054)
Profit earned	**169**	388
	1 334	2 243
Profit mark-up range for the year	**6,0%-12,94%**	6,0%-13,0%
Trade finance		
Balance outstanding at beginning of year	**1 864**	4 194
Advances granted during the year	**3 120**	4 298
Repayments during the year	**(3 828)**	(6 964)
Profit earned	**232**	336
	1 388	1 864
Profit mark-up range for the year	**9,50%**	9,75%-10,0%

Iqraa Trust

During the year, the bank donated an amount of R10 779 104 (2017: R10 151 267) to the trust.

At 31 December 2018 funds deposited by the trust with the bank amounted to R24 443 450 (2017: R16 694 685).

Albaraka Sukuk Trust		
Sukuk capital	**200 000**	45 500
Total exposure to related parties	**217 459**	67 572

Staff

Staff advances are conducted at subsidised profit rates.

The total staff advances outstanding at the end of the period amounted to	**61 247**	61 251

36. COMPARATIVE INFORMATION

The 2017 financial year contained an amount that was incorrectly taken into account in property and equipment of the subsidiary company. This should have been accounted for as property and equipment of the bank. The comparative information has been restated to reflect the changes and can be found in the increase in property and equipment, the decrease in the balance of investment in and amount due from subsidiary, and the relative cash flow notes.

37. STANDARDS AND AMENDMENTS NOT YET EFFECTIVE

At the date of authorisation of the annual financial statements for the year ended 31 December 2018, the following non-exhaustive list of 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. New standards and amendments which are expected to have an impact on the bank only are included below.

IFRS 16: Leases (Effective 1 January 2019)

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two non-recognition exemptions for lessees - leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (ie. the lease liability) and an asset representing the right to use the underlying asset during the lease term (ie. the right-of-use asset). A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The transition method that is to be adopted is the modified retrospective approach. There will be no practical expedients used on adoption. The chosen method of measurement of the right of use asset is at the value of the lease liability. The depreciation of the ROU asset will be based on the contractual life of the lease and the finance charges on the lease liability will be based on the prime lending rate.

IFRIC 23: Interpretation 23 Uncertainty over Income Tax Treatments (Effective 1 January 2019)

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments.

The approach that better predicts the resolution of the uncertainty should be followed.

AAOIFI STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**
Assets				
Cash and cash equivalents	**670 034**	584 088	**669 829**	583 846
Sales receivables	**2 198 822**	1 540 787	**2 198 822**	1 540 787
Musharaka financing	**3 738 841**	3 511 587	**3 738 841**	3 511 587
Ijarah financing	**15 422**	-	**15 422**	-
Investment securities	**24 425**	25 717	**24 425**	25 717
Investment in subsidiary company	**-**	-	**20 148**	17 942
Total investments	**6 647 544**	5 662 179	**6 667 487**	5 679 879
Other assets	**27 583**	64 382	**51 110**	90 823
Property and equipment	**116 175**	113 627	**56 615**	61 305
Investment properties	**10 339**	10 502	**-**	-
Intangible assets	**36 992**	29 329	**36 992**	29 329
Total assets	**6 838 633**	5 880 019	**6 812 204**	5 861 336
Liabilities, unrestricted investment accounts and owners' equity				
Liabilities				
Customer current accounts and other	**714 835**	570 822	**714 835**	570 822
Payables	**55 098**	64 975	**49 425**	65 052
Other liabilities	**20 031**	14 981	**20 031**	14 981
Total liabilities	**789 964**	650 778	**784 291**	650 855
Equity of unrestricted investment account holders	**5 089 604**	4 465 814	**5 089 604**	4 465 814
Sukuk	**201 667**	45 879	**201 687**	45 889
Profits distributable to depositors	**39 860**	55 957	**39 860**	55 957
Total liabilities and unrestricted investment accounts	**6 121 095**	5 218 428	**6 115 442**	5 218 515
Owners' equity	**717 538**	661 591	**696 762**	642 821
Share capital	**322 403**	322 403	**322 403**	322 403
Share premium	**82 196**	82 196	**82 196**	82 196
Other reserve	**876**	1 460	**876**	1 460
Retained income	**312 063**	255 532	**291 287**	236 762
Total liabilities, unrestricted investment accounts and owners' equity	**6 838 633**	5 880 019	**6 812 204**	5 861 336

AAOIFI STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R'000	**R'000**	**R'000**	**R'000**
Income from sales receivables	**163 933**	146 367	**163 933**	146 367
Income from Musharaka financing	**373 890**	341 815	**373 890**	341 815
Income from Ijarah financing	**4 824**	-	**4 824**	-
Return on unrestricted investment accounts before the bank's share as mudarib	**542 647**	488 182	**542 647**	488 182
Less: bank's share as mudarib	**(276 625)**	(248 202)	**(276 410)**	(247 941)
Return on unrestricted accounts	**266 022**	239 980	**266 237**	240 241
Bank's share in income from investment (as a mudarib and as a fund owner)	**276 625**	248 202	**276 410**	247 941
Bank's income from its own investments	**1 436**	1 368	**8 436**	10 368
Revenue from banking services	**19 719**	20 171	**19 719**	20 171
Other revenue	**29 109**	27 533	**28 659**	27 022
Total bank revenue	**326 889**	297 274	**333 224**	305 502
Administrative and general expenditure	**(213 839)**	(204 795)	**(223 015)**	(214 349)
Depreciation of property and equipment	**(12 225)**	(10 982)	**(14 946)**	(15 069)
Amortisation of intangible assets	**(8 974)**	(7 355)	**(8 974)**	(7 355)
Depreciation of Ijarah	**(408)**	-	**(408)**	-
Profit before taxation	**91 443**	74 142	**85 881**	68 729
Taxation	**(21 735)**	(23 225)	**(18 181)**	(19 219)
Profit for the period	**69 708**	50 917	**67 700**	49 510

AL BARAKA BANKING GROUP – GLOBAL NETWORK

AL BARAKA BANKING GROUP B.S.C.

GROUP HEADQUARTERS

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Al Baraka Banking Group's international subsidiaries 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,
BTI Bank S.A. in Morocco.

Al Baraka Banking Group also has representative offices in: Indonesia, Libya, with a branch in Iraq, for which Al Baraka Türk Participation Bank is responsible.

Contact details for the subsidiary units of Al Baraka Banking Group are available via our website.
Please visit: www.albaraka.co.za and select 'Group Website'