alBaraka

2019

INTEGRATED

ANNUAL REPORT

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
Al Baraka Bank has developed and implemented a Code of Business Conduct. This gives effect to the bank's business culture and, in particular, the actions of its staff members. The principles espoused in the Code of Business Conduct include:

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

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

IT IS OUR PLEASURE TO WELCOME YOU, OUR VALUED STAKEHOLDER, TO OUR 2019 INTEGRATED ANNUAL REPORT, WHICH PROVIDES INSIGHTS TO THE BANK'S 01 JANUARY TO 31 DECEMBER 2019 REPORTING PERIOD.

Our integrated annual report offers you an easily understood and concise oversight of our bank's past performance, achievements and future prospects.

This document contains a suite of key performance indicators, our business profile and a 10-year financial review, together with our leadership, business footprint and joint statement by the chairman and chief executive. In addition, we detail material matters with which the bank deals, inclusive of human resources, information technology, corporate governance, sustainability, compliance and Shariah principles.

Ours is a commercial banking institution and is South Africa's only fully-fledged Islamic bank. Accordingly, our key concern is to make an effective contribution towards the provision of a fair and equitable financial system in South Africa; one which rewards effort and contributes to the development of the community. Our primary goal in this regard is to adequately meet the financial needs of this country's communities by conducting our business endeavours in an ethical manner and in accordance with our beliefs. In so doing, we practice the highest of professional standards and share the mutual benefits with our customers, members of staff and our shareholders, all of whom participate in our business success.

In preparing this integrated annual report, we are ever mindful of Al Baraka Bank's reporting requirements, together with those prescribed by South Africa's financial regulatory bodies.

We remain constantly aware of the overriding principles which guide the bank, as described in the IFRS 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, we actively apply an integrated thinking philosophy to our overall business and said philosophy is reflected in our adopted strategic direction, in the pursuit of delivery 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 its review and approval.

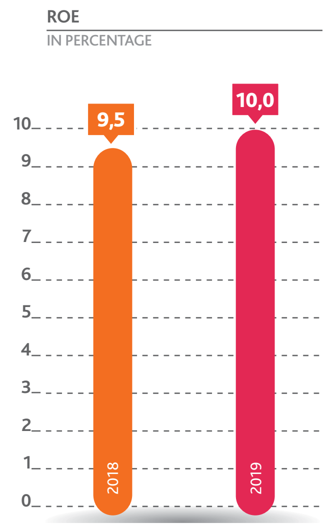
The board, having given due consideration to the report, is of the opinion that it satisfactorily addresses all relevant material issues and fairly represents the business and financial performance of Al Baraka Bank.

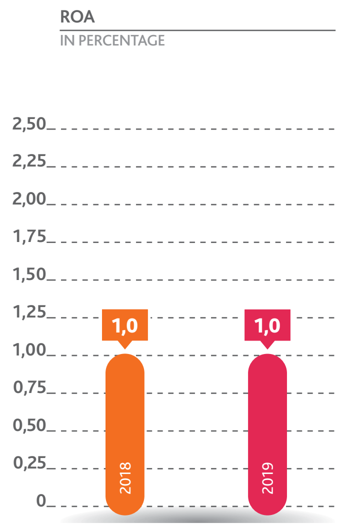
Adnan Ahmed Yousif
Chairman

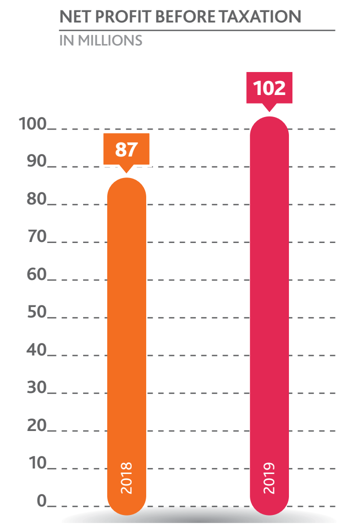
20 March 2020

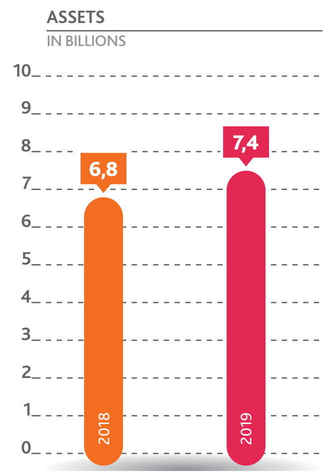
Shabir Chohan
Chief executive

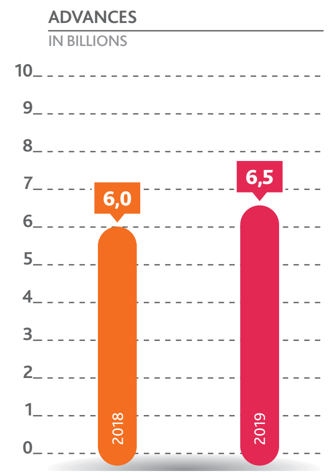
KEY PERFORMANCE INDICATORS

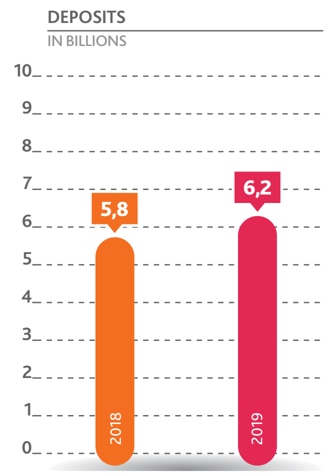


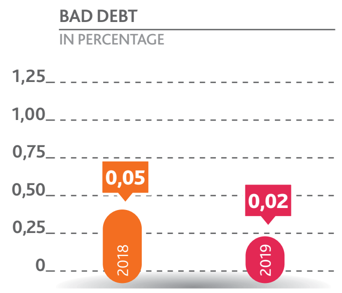


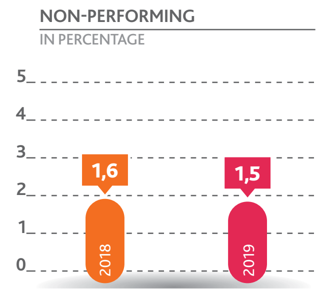












BUSINESS PROFILE

AL BARAKA BANKING GROUP - BAHRAIN
Al Baraka Bank in South Africa is a fully integrated subsidiary of Al Baraka Banking Group, which is a Bahrain-based financial institution and a global leader in Islamic banking.

Al Baraka Banking Group, listed on the Bahrain and Dubai financial exchanges, provides Shariah-compliant retail, corporate, treasury and investment banking and has a presence in some 17 countries around the world through its portfolio of subsidiary banking units and representative offices.

The group has developed and has in place a wide range of financial products, customised so as to effectively meet the ever-evolving requirements of clients. It sets out to deliver world-class Islamic banking services around the globe. In this respect, Al Baraka Banking Group's financial footprint presently includes representation in Turkey, Jordan, Egypt, Algeria, Tunisia, Sudan, Bahrain, Pakistan, Lebanon, Syria, Iraq, Saudi Arabia, Indonesia, Libya, Morocco and, of course, South Africa.

The continued and exceptional growth of Al Baraka Banking Group has seen total assets exceed US$26 billion in 2019.

Al Baraka Banking Group's stable of international subsidiary banking units now includes:

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 is geared to offer communities country-wide with both a practical and sustainable alternative to conventional banking.

Our Shariah-compliant products and services increasingly appeal to both Muslim and non-Muslim clients. Employing a faith-based system of financial management, Al Baraka Bank's guiding principles are drawn from Shariah, upholding the ideal of profit-sharing, while prohibiting the payment or receiving of interest in any transaction.

We maintain close personal contact with our clients and, in so doing, set out to live the moral value of 'partnership,' constantly aiming to create, develop and sustain long-term relationships with clients. This, we believe, enables the bank to encourage close and meaningful dealings and exchanges to the benefit of both our clients and the business.

Al Baraka Bank's head office is located in Durban and we enjoy a national business footprint, inclusive of seven retail branches, three corporate banking offices, a professional office and a regional office. As a commercial and fully-fledged Islamic bank and using our diverse presence country-wide, we are able to offer clients a wide range of financial products and services.

As at 31 December 2019, Al Baraka Bank's primary shareholders included the Bahrain-based Al Baraka Banking Group B.S.C. (64,51%), Dominion (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 Esanjo Capital Ltd (2,0%). Foreign and local shareholders represent the balance.

Al Baraka Bank's board of directors comprises international and local business people, all with the requisite business skills, coupled with exceptional collective knowledge of and expertise and experience in Islamic banking. We have in place both an internal Shariah Department and an independent Shariah Supervisory Board. The vital roles of these bodies are to ensure the bank's full compliance with Shariah in its every-day business activities. In addition, Al Baraka Bank is a member of the authoritative and respected international Accounting and Auditing Organisation for Islamic Financial Institutions, or AAOIFI.

The bank's financial products are accordingly reviewed and audited regularly, giving effect to the ongoing maintenance of and adherence to Shariah compliance.

Al Baraka Bank has grown to become an integral part of the international group. In line with this, the bank has developed and honed an enviable standing in South Africa's financial sector as a financial services provider of high repute; one which demonstrates the professionalism, effectiveness and efficiency necessary to function at the leading-edge of Islamic banking in this country.

We continue enjoying an outstanding business growth trajectory, while playing a critical role in contributing towards addressing and overcoming some of South Africa's most serious socio-economic challenges; the result of our staunch commitment to a range of Corporate Social Investment initiatives, given greater emphasis still through the alignment of our Corporate Strategy and Social Investment responsibilities with the 2030 Agenda for Sustainable Development.

The bank believes the most responsible approach to making a telling and sustainable social impact was to link our corporate social investment efforts with Al Baraka Banking Group's existing alignment with this laudable United Nations Development Programme initiative.

The bank has, accordingly, identified seven of the 17 Sustainable Development Goals through which to make a tangible impact in South Africa.

TEN-YEAR REVIEW

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Statement of Financial Position (Rm)										
Share capital	322	322	322	322	322	322	225	225	225	150
Shareholders' interest	771	713	662	627	601	560	381	362	347	233
Deposits from customers	6 180	5 844	5 078	4 634	4 426	4 230	3 941	3 322	2 881	2 571
Advances and other receivables	6 522	5 976	5 111	4 646	4 473	4 242	3 753	3 269	2 826	2 395
Total Assets	7 363	6 834	5 880	5 329	5 058	4 814	4 411	3 716	3 246	2 825
Statement of Comprehensive Income (Rm)										
Profit before taxation	102	87	74	58	76	55	40	34	26	17
Total comprehensive income for the year	75	65	51	41	56	40	29	25	16	11
Share Statistics (Cents)										
Basic and diluted earnings per share	231	203	158	128	171	154	129	112	77	74
Headline earnings per share	229	202	162	127	171	154	129	114	76	69
Dividend per share	55	55	50	50	45	45	45	45	45	45
Net asset value per share	2 390	2 201	2 052	1 943	1 866	1 736	1 692	1 608	1 541	1 551
Ratios (%)										
Return on average shareholders' interest	10,0	9,5	7,9	6,7	9,5	8,5	7,8	7,1	4,6	4,8
Return on average total assets	1,0	1,0	0,9	0,8	1,1	0,9	0,7	0,7	0,5	0,4
Shareholders' interest to total assets	10,5	10,4	11,3	11,8	11,9	11,6	8,6	9,7	10,7	8,2

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

AS AT 31 DECEMBER 2019,AND IN ACCORDANCE WITH DIRECTIVE 4/2018, ISSUED BY THE PRUDENTIAL AUTHORITY OF THE SOUTH AFRICAN RESERVE BANK, AL BARAKA BANK'S UNITARY BOARD STRUCTURE CONSISTED OF:

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

Al Baraka Bank's skilled and dedicated board of directors comprised the following members during the 2019 financial year:

NON-INDEPENDENT, NON-EXECUTIVE DIRECTORS

AA Yousif (64) - Bahraini
Non-executive chairman

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

SA Randeree (57) - British
Vice chairman

- BA (Hons), MBA
- Joined the board in 2003
- Board committee memberships

■ DAC □ BCC □ REMCO

F Kassim (61) - Sri Lankan

- EMP - Harvard Business School
- Joined the board in 2006
- Board committee memberships

□ DAC ■ SEC

A Lambat (61) - South African

- CA (SA)
- Joined the board in 2006
- Board committee memberships

■ R, CM & CC □ BCC □ AC

MS Paruk (65) - South African

- CA (SA), F.Inst. D
- Joined the board in 2004
- Board committee memberships

■ BCC □ R, CM & CC □ AC ■ REMCO

MJD Courtiade (66) - French

- CA (SA)
- Joined the board in 2004
- Board committee memberships

□ R, CM & CC □ BCC

INDEPENDENT NON-EXECUTIVE DIRECTORS

YGH Suleman (62) - South African
Lead independent director

- CA (SA), Chartered Director (SA)
- Joined the board in 2016
- Board committee memberships

■ AC □ REMCO

Adv. JMA Cane SC (53) - South African

- LLB, LLM
- Joined the board in 2018
- Board committee memberships

□ SEC □ DAC □ R, CM & CC

ZH Fakey (45) - South African

- CA (SA)
- Joined the board in 2019
- Board committee memberships

□ AC □ R, CM & CC □ SEC

EXECUTIVE DIRECTORS

SAE Chohan (54) - South African
Chief executive

- CA (SA)
- Joined the board in 2004
- Board committee memberships

□ BCC □ SEC

M Kaka (40) - South African
Chief operating officer

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

□ BCC

A Ameed (38) - South African
Financial director

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

□ R,CM & CC

BOARD COMMITTEE LEGEND:
□ AC - Audit committee
□ R, CM & CC - Risk, capital management & compliance 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)
Sales manager: A Mia
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)
Branch Administrator: S Shariff
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:
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Email: customerservices@albaraka.co.za
SMS: 43893
WhatsApp:+27 84 786 6563 (general banking information only)
Web: www.albaraka.co.za

CHAIRMAN
AND CHIEF EXECUTIVE'S STATEMENT

THE 2019 FINANCIAL YEAR PROVED DIFFICULT FOR BOTH THE GLOBAL ECONOMY AND SOUTH AFRICA. GLOBALLY, INCREASED TRADE TENSIONS BETWEEN THE USA AND CHINA DISRUPTED GROWTH IN INTERNATIONAL TRADE AND THE OPPORTUNITY FOR EMERGING MARKETS, SUCH AS SOUTH AFRICA, TO EXPORT.

ECONOMIC OVERVIEW

Encouragingly, a worse outcome was prevented by unexpectedly accommodative global monetary policy. The latter helped boost risk appetite for emerging market assets and, in so doing, prevented a sharp sell-off in the Rand amidst deteriorating fiscal conditions domestically. A lack of business confidence, intensified by disillusionment with the pace at which Government has embarked upon structural reforms to boost growth, resulted in lower-than-expected economic growth, thus depressing tax revenues.

Ongoing bailouts by Government of increasingly dysfunctional SOEs and the State's difficulty in constraining growth in the public sector wage bill have contributed towards a substantial widening of the budget deficit. The resultant increase in public debt has raised concerns about further credit ratings downgrades, which might force longer-term interest rates to increase further and crowd out the Government's ability to spend on other key social deliverables.

OPERATIONALLY, 2019 MARKED SOLID PROGRESS WITH, AND ACHIEVEMENT OF, A NUMBER OF KEY TECHNOLOGY-RELATED PROJECTS

Encouragingly, the weakness of domestic economic activity made it difficult for business to pass on cost increases, resulting in a bigger-than-expected decline in inflation, paving the way for interest rates to decline by 0,5% cumulatively during the past six months. In spite of this benefit, it is likely that economic growth will remain subdued over the coming year, with prospects aggravated by the unexpected resumption of electricity load-shedding in recent months, which has threatened to dampen investment for fear of a lack of energy security. Fortunately, the economy remains relatively resilient and far from collapse, but growth remains sub-optimal and insufficient to compensate for population growth, threatening to perpetuate the rising trend of unemployment. However, the effect of the Coronavirus pandemic will have a significant impact on the economy and is currently being unpacked.

AL BARAKA BANKING GROUP

Al Baraka Bank is one of 17 subsidiary units of the internationally-acclaimed and Bahrain-based Al Baraka Banking Group.

Al Baraka Banking Group is licensed as an Islamic wholesale bank by the Central Bank of Bahrain and is listed on the Bahrain Bourse and Nasdaq Dubai Stock Exchanges. It, together with its global subsidiary units, offers retail, corporate, treasury and investment banking services, strictly in accordance with the principles of Islamic Shariah.

During the 2019 financial year, Al Baraka Banking Group was named as the 'World's Best Islamic Financial Institution' for the seventh consecutive year at an awards ceremony, which the influential USA-based Global Finance Magazine stages annually for international banks and financial institutions.

Al Baraka Banking Group saw total assets exceed US$26 billion in 2019.

2019 FINANCIAL PERFORMANCE: SOUTH AFRICAN SUBSIDIARY

In the face of challenging economic times in South Africa, characterised by a downgraded GDP growth rate and a generally pessimistic economic sentiment, Al Baraka Banking Group's South African subsidiary performed admirably.

The 2019 reporting period witnessed the Durban-based bank's achievement of net income, before tax, of R102 million, reflecting an impressive 17% increase over the 2018 figure of R87 million, in spite of existing overall low growth levels in the country. Advances grew by 9,1%, while total assets amounted to R7,3 billion, up 7,7% over the previous year.

Given the prevailing state of the South African economy, our financial results may be considered most pleasing. Of concern, however, was the continuing low percentage of non-funding income to total income. We were not as successful in impacting this statistic as had been contemplated, although some improvement was attained. As a consequence, we have initiated a number of strategic interventions and measures to address the situation.

Crucially, though, our cost income ratio reflected a heartening decrease from 73,0% to 70,3% during 2019. Our expectation, however, was that of a greater decrease, resulting in further counter-measures being implemented to cut the cost income ratio to a more acceptable 65% going forward.

Of huge significance to our bank and on the back of the exceptional success of our first Sukuk (investment certificates), issued in 2016 to raise R200 million and which became fully subscribed in 2018, we were delighted in 2019 to have secured authorisation from the regulatory authorities for a second Sukuk issuance, this time aiming to raise R400 million by the end of 2021 to fund bank growth and extend our reach to a broader market. An additional R107 million was raised in 2019.

We regard the advent and uptake of both our first and second Sukuk issuances as a major strategic achievement. Sukuk provides an exceptionally attractive and Shariah-compliant alternative investment option; one which has drawn unparalleled interest from investors across South Africa.

In view of the attractiveness this investment vehicle has garnered to date, we expect to make further Sukuk issuances during the next several years to fund our bank's continued growth trajectory and market expansion objectives.

DIVIDEND

Al Baraka Bank is pleased to announce that for the 14th consecutive year, we have declared a dividend for the benefit of our shareholders. The board-approved dividend for the 2019 financial year was 55 cents per share.

SIGNIFICANT ACHIEVEMENTS

Operationally, 2019 marked solid progress with, and achievement of, a number of key technology-related projects, which will go a long way towards further improving, augmenting and boosting Al Baraka Bank's client banking experience.

A hugely important 2019 achievement was our approval of a digitalisation programme; a programme which forms part of an Al Baraka Banking Group-wide strategy aimed as fully embracing technology into the future. This will keep the group and its subsidiary units at the leading-edge of technological advancement in the banking industry.

A critical component of our adoption of digitalisation is our planned implementation of a robotic automation system, giving radical effect to the automated management of bank systems currently operated manually. The overall effect of the move to digitalisation and robotics will be greatly enhanced efficiencies across all aspects of the bank's operations, thus making a considerable impact on the banking experience for clients, enhancing service levels and including moving us ever-closer to a state of paperless document management.

Giving tangible effect to this programme entails a great deal of internal restructuring, gearing staff members to our new business approaches. Adoption will bring with it the bank's more timely provision of information to clients and a host of internal efficiencies for the ultimate benefit of our various stakeholder groups.

Another major achievement for the bank was the culmination in 2019 of a necessarily long project to replace our core banking system. This project necessitated a huge amount of back-office work by a considerable number of our staff and affected every aspect of our business. Following an implementation delay, the new core banking system went live on 01 February 2020.

Roll-out of the new system was undertaken in conjunction with four other subsidiaries in the Al Baraka Banking Group and brings to eight the number of group operations to have adopted the system internationally.

The core banking system replacement is one of the biggest projects undertaken in our bank's 30-year history and, in essence, consolidates innumerable internal systems, providing for appreciably greater business efficiencies and effectiveness. Extensive end-user training for staff was undertaken through a number of instructor-led meetings, ensuring the seamless adoption of the new system.

A large number of our dedicated and highly-valued members of staff were involved in this project, sacrificing much of their personal time during the past months to ensure the successful implementation of the new core banking system, for which we voice our most sincere thanks.

Arising from the new core banking system, we have been able to introduce two additional structures; a new document management system, the first phase of which will integrate with the new system and an early learning management system, which is designed to promote efficiency of operation within the bank. Both structures are expected to be fully implemented in 2020 and beyond.

Continuing the technology theme, our bank set about initiating a comprehensive banking application during the course of the 2019 financial year. In view of the fact that we are today all part of the digital world which has rapidly emerged, we commenced development of our banking App in an effort to meet modern banking client expectations. It is our intention to unveil and take live our all-embracing banking App during the course of the next 12 months.

Another major 2019 achievement, one which we are now delighted to share, is the ability by clients to deposit money, to a specified limit, at any branch of Pick n Pay, a national supermarket chain, country-wide, with instant credit to their Al Baraka transactional accounts. This long-awaited addition to our transactions suite makes us just the seventh bank in South Africa to adopt this innovative service addition. We regard this step as yet another major milestone in the history of the bank, creating a massively bigger operational footprint, bringing us so much closer to the communities we exist to serve and enabling clients the further ability to transact outside normal banking hours.

The reporting period also witnessed our introduction of a new product; the first advances banking product to have been added to our offering in recent times. Our Ijarah motor vehicle product came into being in 2019 and was extremely well received in the market. Ijarah refers to an arrangement under which an Islamic bank leases an asset to a client against an agreed rental.

This product enables the bank - as lessor - to acquire the capital asset required by the client against a rental agreement, with the client as lessee. The bank charges a profit mark-up on the principal amount outstanding and the client makes monthly payments to the bank over the term of the lease, where after - or upon the lessee fulfilling all lease obligations - ownership of the asset passes to the lessee. Retention of ownership forms part of the structure of the Ijarah agreement, and should be viewed as a protective measure.

Interest in and uptake of the new Ijarah motor vehicle product has proved most gratifying since its inception, making this a most worthy fresh and innovative extension of our bouquet of banking products.

CORPORATE SOCIAL INVESTMENT

One of the key values we espouse is that of making a telling social contribution towards addressing South Africa's numerous socio-economic challenges.

In line with this philosophy, we have in place a strategically-focused corporate social investment programme, utilised to make a positive impact on the lives and circumstances of, especially, the historically disadvantaged across South Africa. Our national support efforts are directed towards the needy in the fields of education, health and welfare.

During 2019, we activated a series of social investment initiatives across the country, executing a Winter Warmth programme, a care-for-the-elderly Mandela Day event, a school shoes drive, an Arbour Week tree-planting and education scheme and an entertainment agenda for orphans in centres around South Africa.

We also continued affording time and resources to the development of our two long-standing Project 25 initiatives, implemented in 2014 in recognition of the bank's then 25th anniversary. This constitutes ongoing assistance to Sinevuso Secondary School near Ixopo, KwaZulu-Natal, holistically preparing youngsters for post-matric studies or employment, and support for a community market garden initiative at Marianhill, near Pinetown, Durban. The latter involves creating jobs, promoting a level of food security and promoting wealth generation.

The reporting period saw our bank donate a total of R3,1 million to these and other needy projects and causes. Further, an additional R10,6 million was donated to a charitable Trust.

We are resolved to both continue and improve efforts to play a role in uplifting this country's historically disadvantaged communities through our carefully-managed distribution of available funds. To give greater emphasis to this ideal, 2019 witnessed Al Baraka Bank's alignment of our corporate strategy and social investment responsibilities with the global 2030 Agenda for Sustainable Development, being an initiative of the United Nations Development Programme (UNDP).

This follows the signing of a Memorandum of Understanding

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

between our primary shareholder, the Bahrain-based Al Baraka Banking Group and the UNDP, which agreement serves to facilitate a partnership designed to accelerate the implementation of 17 Sustainable Development Goals. Ours is the first of the group's subsidiaries and representative offices internationally to join our parent company in linking our corporate social investment objectives to the UNDP's efforts.

This global initiative, first adopted by world leaders in 2015, is widely regarded as a means to eradicate poverty, reduce inequality and exclusions, safeguard the future of the planet and ensure the world's people enjoy peace and prosperity. In concluding an agreement with the UNDP, we have identified seven of the 17 Sustainable Development Goals in which we can make the greatest impact and which will fundamentally move our organisation beyond profit, giving increasing consideration to both people and environment.

FUTURE PROSPECTS

Disappointingly, South Africa's economic forecast for the foreseeable future remains gloomy.

This country's depressed economy, energy crisis, high unemployment and other politically-related concerns do not bode well for growth and development. Attendant to this is the fact that the performance of banks is largely dependent on the economy and we, of Al Baraka Bank, therefore expect the next two years, 2020 and 2021, to be somewhat challenging. The effect of the Coronavirus pandemic will have a significant negative impact on the economy and is expected to negatively impact our 2020 performance.

We will put in place a range of strategic interventions designed to cushion the prevailing negative sentiment.

Our intention is to continue promoting bank growth, expanding our market, boosting business efficiencies and delivering client service excellence, whilst also focusing on reducing our cost income ratio and increasing non-funding income to total income.

APPRECIATION

We say goodbye to two long-serving non-executive directors, Mr Ahmed Lambat and Mr Farook Kassim, who have served the bank with distinction and commitment since 2006 and will retire on 31 March 2020.

We also welcome Mrs Sane Nyasulu, a qualified legal practioner, who joins the board with effect from 01 April 2020.

In conclusion, the financial success and business achievements of 2019 may, in no small measure, be attributed to Al Baraka Banking Group, our board members, dedicated members of staff and, of course, our valued shareholders and cherished clients.

Our most grateful thanks is extended to Al Baraka Banking Group for its continued support for and championing of our bank. Being an integral part of one the world's leading Islamic banking groups and being able to draw on its international expertise and experience has contributed meaningfully in positioning our bank at the leading-edge of Islamic banking in South Africa.

We are equally thankful to the members of our board for their leadership, strategic business direction, knowledge of Islamic banking, insight and astuteness. We have great appreciation for their collective business acumen, which continues guiding the bank on an impressive growth path in the service of our clients.

We also take the opportunity to sincerely thank the bank's executive team, senior management and staff - especially those who gave so willingly of their personal time and who sacrificed much to ensure the timely adoption of our new core banking system - for their dedication and loyalty to the bank and its day-to-day business activities.

Finally, we offer our wholehearted appreciation to our shareholders and clients. Their unwavering support for Al Baraka Bank has contributed appreciably towards the growth of our business, making it the successful and sustainable enterprise we know today.

On behalf of the board, we thank most sincerely all our stakeholders and offer the assurance that we are intent on taking Al Baraka Bank to an altogether new and exciting business level going forward.

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

20 March 2020

HUMAN RESOURCES REPORT

AL BARAKA BANK HAS RESPONDED TO THE FOURTH INDUSTRIAL REVOLUTION BY IMPLEMENTING BUSINESS STRATEGIES WHICH CENTRE AROUND DIGITALISATION, NEW AND INNOVATIVE TECHNOLOGY, ORGANISATIONAL RESTRUCTURING FOR EFFICIENCY AND BUSINESS PROCESS RE-ENGINEERING.

Underpinning the successful implementation of the business strategy are effective change management interventions, bespoke learning and development technology and organisational design, all geared to prepare our human capital to be in a state of readiness to embrace the transformation of the organisation.

The overarching intention of this strategy was to enhance the customer experience and improve employee satisfaction.

We strongly believe that taking on the changes of our 'business unusual' approach will catapult the bank into a new operating mind-set and paradigm. Whilst the advent of technological disruption has sent the finance industry sector into a state of labour uncertainty, Al Baraka Bank has capitalised on this as a platform to better engage with our employees, creating career enhancement opportunities, a move which has already begun to brand our bank as an employer of choice.

TALENT ACQUISITION

We place great importance on ensuring that we select new employees who are both a culture-fit to the organisation and who display the potential and desire to succeed at the next level of work.

We never compromise on our stringent selection methodologies, thus ensuring the acquisition of human intellectual capital of a superior calibre, capable of demonstrating high levels of integrity, exacting ethical standards, a tremendous work ethic and an intense customer-centric approach to service delivery. Whilst the unemployment rate in South Africa stands at a high percentage, the hunt for specialist and critical scarce-skilled talent remains a challenge. However, the adaptation of our recruitment strategy to outsource certain skills has proved successful in meeting the needs of our fast-paced and high-performance business environment.

Al Baraka Bank has been recognised by both new talent and clients, who are attracted to our organisation because it represents a stable environment, which continues to grow and remain profitable in the face of prevailing tough economic conditions.

We have become increasingly competitive and widely recognised, as an Islamic bank of note, in the world of commercial banking and have, therefore, begun to attract a more diverse client and employee base, with individuals taking a keen interest in our organisation as both a partner bank and employer of choice.

TRAINING FOR EXCELLENCE

The implementation of a new core banking system within Al Baraka Bank has resulted in a requirement for our staff to unlearn the old and re-learn a new operating system and process.

The successful introduction of an e-learning management system, with customised learning material, has served to efficiently bridge the skills gap. The Al Baraka e-learning system represents a significant achievement milestone for our organisation and is one which will revolutionise the bank's learning and development environment, as it places the power of learning firmly in the hands of the employee.

The intention is to adopt a blended learning approach, as well as offering coaching and mentoring, to enhance the learning experience for our employees. The enhancement of the training support function of the human resources division will continue receiving high-level focus and attention in 2020.

ORGANISATIONAL CHANGE

As the financial services sector becomes ever more competitive and disruptive, we have come to realise the need to transform as an organisation in order to become more customer-centric and technologically innovative.

Organisational design and change management has, therefore, been a central human resources focal point in 2019 and will continue as such into 2020, given the scale of transformation currently occurring across the bank.

We have acknowledged that it is imperative to take our employees on such a journey and to ensure that they remain positively engaged throughout the process. Staff satisfaction surveys and various other communication channels have been introduced in order to facilitate discussion and ensure that members of staff have been inclusively involved in any and all changes affecting their world of work.

A COMPREHENSIVE PEOPLE STRATEGY ALIGNED TO THE STRATEGIC OBJECTIVES OF THE BANK, HAS BEEN DEVELOPED

PLANNING FOR SUCCESSION

Al Baraka Bank's growth path emphasises the importance of succession planning, in order that the business might continue operating seamlessly in the event of attrition. We have, therefore, identified the next generation of leadership from our highly-skilled and talented workforce for succession grooming and development ahead of the next level of work.

An Al Baraka Bank accelerated development programme has been introduced, providing employees with insights to practical business skills which they are able to utilise in their day-to-day interactions with clients and as part of their overall leadership development. A specific emphasis has been placed on women empowerment, through a 'women in leadership' programme which we also launched in 2019. It is the intention of the bank to actively grow talent and prepare a leadership pipeline capable of taking the business to new heights.

TALENT MANAGEMENT

A comprehensive people strategy, aligned to the strategic objectives of the bank, has been developed to improve the organisational climate within which we operate and, ultimately, to enhance employee satisfaction and retention levels.

STAKEHOLDER ENGAGEMENT

Our human resources division was proud to have been in a position to launch a 'HR Chapter,' where human resources professionals from both the banking and broader finance industry were invited to a conference to discuss topical matters pertinent to today's human resources fraternity. The bank intends continuing to partner with relevant stakeholders and to strengthen our relationships, so as to effectively achieve shared objectives.

HUMAN
RESOURCES REPORT (CONTINUED)

WORKFORCE PROFILE AS AT 31 DECEMBER 2019

	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	28	11	4	2	32	13	45
Skilled technical and academically qualified workers, junior management and supervisors	74	87	2	1	76	88	164
Semi-skilled and discretionary decision-making	32	74	1	0	33	74	107
Unskilled and defined decision-making	1	5	0	0	1	5	6
Total	**138**	**177**	**7**	**3**	**145**	**180**	**325**

AIC* = AFRICAN, INDIAN AND COLOURED

INFORMATION
TECHNOLOGY REPORT

THE PERIOD UNDER REVIEW CENTRED AROUND PROJECT 2020 ACTIVITIES, GIVING EFFECT TO THE REPLACEMENT OF THE CORE BANKING SYSTEM, THE RE-INTEGRATION OF APPLICATION ENVIRONMENTS AND THE UPGRADING OF ASSOCIATED INFRASTRUCTURE.

Underlying technology-driven strategies, including digitalisation objectives are foundational to the bank's capabilities for it to remain competitive, drive innovation and transform the organisation, thus enhancing internal and external stakeholder value, as well as customer channel experiences.

Cyber security, data privacy and governance continued to evolve, with the complexity of threats taking on new dimensions and requiring persistent user awareness, adaptive security models, enhanced layers of protection for organisational assets and access to global threat intelligence, with ongoing industry-wide collaboration.

Project 2020 readiness efforts to go live on 01 February 2020 touched every facet of the organisation, with transformational change management principles embedded in people, processes and technologies. End-user training and awareness occurred through a series of instructor-led sessions, followed by a comprehensive range of e-learning videos covering all business processing functions.

Rigorous user acceptance and data migration testing was also undertaken, with close supervision by executive management involved in the project, and reviewed by both internal and external auditors. The centralised architecture of the new environment reduces the technology footprint and associated costs at branches.

In this regard, high-speed dual-carrier data lines have been implemented to support uninterrupted connectivity to central systems for continued business operations in addition to a number of high-availability features included in the design of the system. Modular features that exist within the core banking platform will result in some stand-alone systems being decommissioned, enabling technology rationalisation.

Additionally, a new electronic document management system, which seamlessly integrates with the core banking environment, was implemented as a central repository for system-generated, scanned and digitally-signed documentation.

For the period ahead and following this milestone event, allowances have been made for the post-implementation bedding in of systems, processes and people, while harvesting the efficiencies of the next generation of the bank's core systems technologies, including enhanced processing performance levels, extensive reporting capabilities, API-enabled integrations, fluid end-user experiences, advanced security and built-in redundancy, amongst other benefits, that will influence improvements in internal and external customer serviceability.

In support of an omnichannel banking experience, the bank has acquired a versatile low-code development solution, with technologies to support multi-factor authentication, customisable self-service features, API-friendly integration and ease of deployment across multiple platforms.

Resource planning engagements have been initiated in preparation for the pilot project of developing a mobile banking application, envisaged during the course of 2020.

Digitalisation initiatives, other than those inherent in Project 2020, include Robotic Process Automation with in-house-developed robots to address repetitive, labour-intensive processes, thus reducing manual interventions and freeing-up staff capacity. A further robot was developed for automating critical system alerts to improve technician response times, so minimising system down-time events.

Planned projects include the use of data analytics to mine transactional data for incidents and trends that can assist with combating fraud and understanding customer behaviour. Digitalisation initiatives continue with existing and planned projects, in alignment with group strategies. Cyber security remains a top risk, with an increasing number of global and local threat alerts impacting the financial sector.

To enhance our cyber resilience capabilities, the bank subscribes to a common cyber security risk framework adopted by South African banks. Independent security monitoring services provide 24/7 visibility of critical security end-points and security awareness through ongoing communications and learning programmes, combined with threat advisory services, assists in hardening the bank's existing layers of defence.

DIGITAL TRANSFORMATION PRESENTS UNIQUE OPPORTUNITIES FOR THE BANK

Moreover, the bank is represented at the South African Banking Risk Information Centre (SABRIC), which collaborates in industry-wide initiatives, including the identification of key risks, analysing cyber security events, incident responses, developing frameworks and the drafting of position papers.

SABRIC engages with local and global threat intelligence agencies, cyber security hubs and organisations such as FS-ISAC, of which the bank is also a member.

In the event of business disruption, disaster recovery and continuity plans are in place for critical operations. This includes High Availability Systems, replicated to an off-site Data Centre in Gauteng and access to four other cold-recovery Data Centres around the country.

Additionally, cyber liability insurance has been secured, with cyber extortion and third party outsourced service provider cover.

Digital transformation presents unique opportunities for the bank to maximise profitability and reduce expenses, with the potential of creating new business models for additional sources of revenue, in line with business and group strategies.

The scope of digitalisation is not limited to the customer experience, but also considers back-office operational efficiencies, with enrichment through data intelligence and hyper-convergence of technologies.

The implementation of the new core banking system environment and complementary platforms are envisaged to support the process of digital transformation.

Customer-centricity, technology risk, cyber security and corporate governance are entrenched in the business and IT culture, with a risk-based approach adopted, while also being mindful of group and regulatory tolerances.

CORPORATE GOVERNANCE REPORT

AL BARAKA BANK'S BOARD OF DIRECTORS RECOGNISES THAT THE APPLICATION OF A ROBUST GOVERNANCE FRAMEWORK IS ESSENTIAL IN ORDER TO BUILD VALUE FOR THE BANK'S STAKEHOLDERS.

The development and enhancement of the bank's governance frameworks has enabled it, during the course of 2019, to perform at its optimum, remain sustainable and deliver against both our corporate obligations and regulatory requirements.

The rapidly changing nature of the business environment within which our bank operates has witnessed the introduction of fundamental changes from both a regulatory and governance perspective. Our board has positively embraced these changes and has sought to harmonise the approach between conformance and performance, with the objective of conducting the business of the bank in an ever-more responsible and efficient manner.

The board remains committed 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.

ROLE AND FUNCTION OF THE BOARD

The board is the focal point of corporate governance for the bank and is responsible for determining the strategic direction of the bank and, ultimately, ensuring that the long- and short-term strategy of the bank remains consistent with the organisation's core values.

The board functions within the ambit of a comprehensively-written charter, which is subject to regular review, and complies with the provisions of the Companies Act, the Bank's Act and the Bank's Memorandum of Incorporation. This charter was reviewed during 2019 and such review provided members of the board with a timely opportunity to reconsider the terms of reference of the charter and include new areas of focus, where required, in response to the changing business and regulatory environment.

The board met on four occasions during the 2019 financial year and once separately with the Prudential Authority of the South African Reserve Bank, which meeting formed part of the bank's annual prudential programme with the Prudential Authority.

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

Al Baraka Bank employs a unitary board structure, comprising 12 directors.

Following the introduction of Directive 4/2018, which addresses matters related to the promotion of sound corporate governance through the Prudential Authority, the independence classification of the directors has changed significantly. In terms of the directive, three of the directors are classified as independent non-executive directors, whilst six are classified as non-executive directors, with the remainder of the directors being executive directors. The executive directors comprise the Chief Executive, the Chief Operating Officer and the Financial Director.

The board, in consultation with the directors affairs committee, is in the process of implementing a Remediation Plan to give effect to the requirements of Directive 4/2018, which also seeks to address issues of diversity, skills and experience.

DIRECTOR SKILLS AND QUALIFICATIONS

8 CA (SA)
2 MBA
1 LLB/LLM
1 Executive management programme

Notwithstanding the Remediation Plan, the board continues to possess a broad range of skills, experience 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.

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 Al Baraka Banking Group. In terms of Directive 4/2018, the Prudential Authority has confirmed that Mr Yousif may continue to serve as chairman, in spite of not being independent.

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 held by Mr YGH Suleman for the period under review.

DIRECTOR AGE ANALYSIS

The directors' affairs committee, in accordance with its terms of reference, conducts an annual review of the composition of the board and respective board committees. This process focuses on ensuring that the board, ultimately, has the requisite skills for transitioning into the years ahead, especially within the banking sector. The review also provides the bank with an appropriate opportunity to conduct the process of succession planning. Having concluded its review of the board and board committee composition, the board supported the recommendations made by the directors' affairs committee and appointed one new director in 2019, namely, Mr ZH Fakey, as an independent non-executive director. Mr Fakey brings with him a wealth of experience from the auditing profession, with specific reference to IT and cyber security, and will undoubtedly play a key role in enhancing and building on a key strategic objective at Al Baraka Bank, namely the enhancement of technology and internal processes.

6 OVER 60 YEARS
3 BETWEEN 50-60 YEARS
3 UNDER 50 YEARS

FUTURE PLANNING

The board fully embraces the recommendations of King IV, with regard to succession planning, as well as Directive 4/2018 released by the Prudential Authority of the Reserve Bank, 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 board is committed to the implementation of the requirements of the Directive and has, through the directors' affairs committee, developed a comprehensive remediation plan in order to give effect to its requirements.

As part of its ongoing governance-related responsibilities, the board will closely monitor the process of implementation in order to ensure full compliance with the Directive, whilst also looking to appoint additional independent, non-executive directors, as part of the board's holistic succession plan, and being mindful of appropriate race and gender representation in its membership.

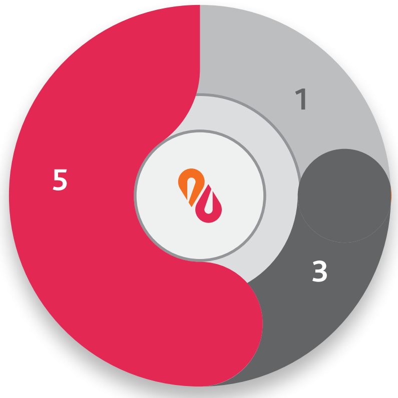
The appointment of directors is both a formal and transparent process and is conducted in terms of prevailing legislative and regulatory requirements, which specifically includes the Banks Act and the Companies Act.

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.

As indicated earlier in this report, the release of Directive 4/2018 has significantly impacted 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 are no longer classified as independent. The implementation of the bank's Remediation Plan will serve as a strategic tool to ensure that board consists of an appropriate balance of independent and non-independent directors.

BOARD TENURE OF NON-EXCUTIVE DIRECTORS



3 LESS THAN NINE YEARS
5 GREATER THAN NINE YEARS
1 LESS THAN NINE YEARS, BUT NON-INDEPENDENT IN TERMS OF DIRECTIVE 4/2018

DELEGATION OF AUTHORITY POLICY

During the course of 2019, the board, in consultation with the risk, capital management & compliance committee, reviewed and approved the bank's delegation of authority policy. In terms of King IV principles, the board ensures that the appointment of and delegation to management contributes to role clarity and the effective exercise of authority and responsibilities.

The policy accordingly serves as a critical component of the governance structure of the bank, as it enables the board to delegate appropriate responsibilities to the chief executive, with whom the collective responsibilities of management reside. The chief executive, in turn, delegates appropriate powers to management, thereby enabling the bank to conduct its business activities on a day-to-day basis.

DIRECTOR DEVELOPMENT AND INDUCTION

Given the rapid changes within the banking environment, the board has prioritised on-going director development and education, such that our directors are kept informed of the latest developments pertaining to legislation and regulations which impact on the bank's business framework. During the course of the 2019 financial year, the board was formally briefed on the Financial Intelligence Centre Amendment Act, as well as being updated on recent governance failures affecting several leading companies in South Africa. Following his appointment to the board, Mr Fakey attended a director induction programme, was introduced to key members of management and provided with an extensive overview of the business operations of the bank.

The concept of on-going director development is referred to in both King IV and Directive 4/2018 and remains one of our board's key objectives. Following Mr Fakey's appointment, he participated in the board leadership programme, offered by the Gordon Institute of Business Science. 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 next year.

CORPORATE GOVERNANCE REPORT (CONTINUED)

PERFORMANCE EVALUATIONS

The board's performance is assessed in terms of a formal evaluation process. In line with King IV recommendations and in keeping with best governance practice, the 2019 performance evaluations were facilitated by an external service provider, as done in 2018. It was pleasing to note that the evaluations confirmed that the board was deemed to be highly effective, and displayed the highest standards of ethical behaviour and integrity and, most importantly, possessed a sound understanding of the banking environment.

The outcomes of the 2019 performance evaluations will be made available during the first quarter of 2020 and will be reviewed by the board.

BOARD AND COMMITTEE ATTENDANCE

The table below records the attendance of board and board committee members in respect of board and board committee meetings held in 2019:

Name of Director/Member	Board	Audit	Risk, capital management & compliance	Board credit	Directors' affairs	Remuneration	Social and ethics
AA Yousif	4/4 [1]	-	-	-	-	-	-
SA Randeree	4/4 [2]	-	-	5/5	4/4 [1]	3/3	-
F Kassim	4/4	-	-	-	4/4	-	2/2 [1]
A Lambat	4/4	7/7	5/5 [1]	5/5	-	-	-
ZH Fakey	4/4 [4]	1/7 [5]	3/5 [7]	-	-	-	2/2
YGH Suleman	4/4 [3]	7/7 [1]	-	-	-	3/3	-
Adv. JMA Cane	4/4	-	1/5 [6]	-	4/4	-	2/2
MS Paruk	4/4	7/7	5/5	5/5 [1]	-	3/3 [1]	-
MJD Courtiade	4/4	-	5/5	5/5	-	-	-
SAE Chohan	4/4	-	-	5/5	-	-	2/2
A Ameed	4/4	-	5/5	-	-	-	-
M Kaka	4/4	-	-	4/5	-	-	-
EM Hassan	-	-	5/5	4/5	-	-	-

1 = Chairman
2 = Vice chairman
3 = Lead independent director
4 = Appointed independent, non-executive director 01 March 2019
5 = Appointed 01 October 2019
6 = Appointed 01 October 2019
7 = Appointed 01 April 2019

BOARD COMMITTEES

Board committees assist the board in the discharge of its duties and responsibilities. Each committee is guided by formally written charters, setting out the terms of reference and functions of the respective committees.

The board has appointed six standing committees to assist it to meet its objectives. These include the:

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

The board also has a specified board property committee, tasked with overseeing the future development of the bank's Kingsmead Office Park property. It is envisaged that upon the completion of the property development, this committee will have concluded its mandate and will be disbanded.

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 mandates.

They include the:

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

AUDIT COMMITTEE

The purpose of the audit committee is primarily to oversee internal controls throughout the bank, internal and external audit functions and financial reporting and control. It is a requirement of the Bank's Act that all banks should establish an audit committee.

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

- Reviewing the interim and annual financial statements and recommending approval to the board;
- Setting mandatory terms on the length of time that an audit partner may serve, being a maximum period of five consecutive financial years, as prescribed in terms of Section 92 of the Companies Act, 71 of 2008, as amended;
- Ensuring the combined assurance model - being assurance coverage obtained from management, internal assurance providers and external assurance providers - is applied to provide a co-ordinated approach;
- Ensuring that the committee has a thorough understanding of International Financial Reporting Standards (IFRS), Global Reporting Initiative Standards and any other reporting framework relevant to Al Baraka Bank;
- Reviewing and approving the internal audit programme for the ensuing year, which is based upon an assessment of the bank's top risks identified during the internal audit risk assessment process; and
- In consultation with the board of directors, be responsible for the appointment, performance assessment and/or dismissal of the head of the internal audit function.

The audit committee, which met on seven occasions during 2019 (one of which was a special meeting regarding the appointment of the lead audit partner), confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review. The members of the audit committee are financially literate.

YGH Suleman
Chairman: audit committee

RISK, CAPITAL MANAGEMENT AND COMPLIANCE COMMITTEE

The purpose of the risk, capital management & compliance committee is to provide assistance to the board and management in monitoring the risk, capital, liquidity and compliance functions of the bank.

A summary of some of the key terms of reference of the risk, capital management & compliance 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;
- Approving the formal risk management functional plan for the ensuing year, which covers all areas of risk management within the bank using a risk-based methodology;
- Ensuring that the bank establishes and maintains an internal capital adequacy assessment policy (ICAAP) whereby policies and procedures exist to ensure the bank identifies, measures and reports all material risks related to capital management;
- Overseeing compliance with material laws and regulations impacting the bank;
- Reviewing, monitoring and providing guidance on matters related to the bank's IT and information management strategies, governance, operations, policies and controls; and
- Monitoring of significant IT investments and projects, including the evaluation of projects throughout their life-cycles, and considering the benefits realised from these investments which include ensuring that information assets are managed effectively.

The risk, capital management & compliance committee met on five occasions during 2019 and confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review.

A Lambat
Chairman: risk, capital management & compliance committee

BOARD CREDIT COMMITTEE

The purpose of the credit committee is to review, manage and measure 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 board credit committee includes, inter alia:

- 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;
- Ensuring that the bank's credit risk management process is aligned with Al Baraka Banking Group's credit risk strategy;
- Monitoring the overall credit review process, taking into account the quantitative and qualitative assessment of the credit worthiness of debtors;
- 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 framework;
- Reviewing the bank's credit policies, reports and other information it deems necessary; and
- Ensuring that the bank complies with all regulatory returns in respect of credit risk functions.

The board credit committee met on five occasions during 2019 and confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review.

MS Paruk
Chairman: board credit committee

DIRECTORS' AFFAIRS COMMITTEE

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

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

- Monitoring the adequacy and effectiveness of the bank's corporate governance structures in line with prevailing legislation and regulations within the banking sector;
- Reviewing, on a regular basis, the composition, skills, experience and other qualities required for the effective functioning of the board;
- Monitoring and maintaining the board-approved directors succession plan and matters relating to the nomination of new directors according to the board-approved policy;
- Assisting the board in ensuring that the performance evaluation of the board and board sub-committees, the chairman and individual members support continued improvement in its performance and effectiveness;
- Reviewing periodically the format and content of the board and other sub-committee mandates; and
- Assisting the board in ensuring that the bank is, at all times, in compliance with all applicable laws, regulations and codes of conduct and practices and addresses any other governance issues that are not dealt with by other board sub–committees.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The committee met four times during the course of 2019 and is satisfied that it has fulfilled its responsibilities as set-out in its charter for the year under review.

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.

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SA Randeree
Chairman: directors' affairs committee

REMUNERATION COMMITTEE
The purpose of the remuneration committee is to advise the board on various matters pertaining to human resources, staffing and remuneration.

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

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

The committee met three times during the course of 2019 and is satisfied that it has fulfilled its responsibilities as set-out in its charter for the year under review.

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

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MS Paruk
Chairman: remuneration committee

SOCIAL AND ETHICS COMMITTEE
The purpose of the social and ethics committee is to monitor the bank's activities in regard to organisational ethics, sustainability and stakeholder management, having regard for relevant legislation and industry best practices.

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

- Monitoring the impact of the bank's activities 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;
- Monitoring the application of ethical conduct throughout the bank in a manner that supports the establishment of an ethical culture;
- Monitoring the bank's commitment and contributions made in terms of its corporate social responsibility programme;
- Overseeing the bank's commitment towards its Black Economic Empowerment objectives;
- Reporting annually to shareholders on the activities within its mandate; and
- Ensuring that the bank conducts its operations in an environmentally-friendly manner with reference to its consumption of resources, such as water, electricity and paper.

The committee met on two occastions during the course of 2019 and is satisfied that it has fulfilled its responsibilities as set-out in its charter for the year under review.

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F Kassim
Chairman: social & ethics committee

GOVERNANCE INDICATORS
ETHICAL CONDUCT
Ethical conduct remains the basis upon which Al Baraka Bank conducts its business. All employees and key stakeholders with whom the bank interacts are committed to the highest ethical standards, as set-out in the bank's code of conduct.

TRANSFORMATION
Al Baraka Bank fully embraces transformation as per the Broad-Based Black Economic Empowerment (B-BBEE) codes. In terms of its revised terms of the amended codes, the bank is classified as a Level 8 Contributor. A plan of action has been prepared which is being driven by the chief executive in order to address the current rating.

PRESCRIBED OFFICERS
The prescribed officers of the bank 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 of directors.

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 giving effect to the process of board evaluations, whilst also overseeing the induction and on-going training and development of directors.

The board is satisfied that the company secretary has maintained an independent and arm's length relationship with the board.

SUSTAINABILITY REPORT

"THE FUTURE DEPENDS ON WHAT WE DO IN THE PRESENT" - MAHATMA GANDHI

PREFACE
Integrating sustainability into business enterprises active in the financial services industry has become increasingly important in recent years. Banks, to a high degree, are responsible for safeguarding peoples wealth, thus enabling them to make a positive contribution to a better society. A need, therefore, exists to give tangible effect to an ever more balanced approach to banking, affording due and equal consideration to the diverse interests of direct and indirect stakeholder groups and ensuring a keen focus on both financial and non-financial issues.

Assuming such responsibility serves to instil a greater sense of economic value, engender a powerful community advancement philosophy and cultivate a nurturing attitude towards the defence of the environment.

AL BARAKA BANK'S SUSTAINABILITY FRAMEWORK
Al Baraka Bank's sustainability framework has been developed around the need to create an environment conducive to the creation of sustainable value, whilst giving effect to our organisation's commitment to being a responsible corporate citizen and a conduit for the empowerment and prosperity of the communities with which we interact.

This philosophy is inherently correlated to our assessment, articulation and facilitation of our financial performance, social conscience and defence of the environment.

We acknowledge that our sustainability framework is premised on vigorous stakeholder engagement, a high degree of inclusivity and an endeavour to proactively shape our impact on society in a meaningful manner.

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 adopts a pragmatic approach to risk management, always ensuring that sustained value is created for the direct advantage and profit of interested stakeholder groups, not least of which include our shareholders and clients.

In this regard, our risk, capital management and compliance committee is charged with responsibility for the bank's risk management framework and works to identify and evaluate, on a quarterly basis, risks - real or potential - which could have an impact on the bank and its business activities. This approach has given rise to the formulation of a sound risk culture which permeates the entire organisation.

The bank has embraced technology, using the platform to actively promote greater efficiencies through digitalisation and the application of robotics development, whilst also drawing on technological advances for effective defence against the multitude of technological threats, such as money laundering, cyber crime, hacking and the like. This, coupled with our membership of the South African Banking Risk Information Centre (SABRIC) - an industry-wide organisation committed to identifying banking scams and fraudulent activities - has ensured that our bank remains strategically placed to effectively implement decisive counter-measures in ongoing endeavours to mitigate the devastating dangers of cyber risk.

CORPORATE GOVERNANCE AND SUSTAINABILITY
As a commercial and fully-fledged Islamic bank, active in South Africa, we adhere to all the country's laws and regulations, as well as complying absolutely to Shariah standards, as prescribed by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Accordingly, the bank is not allowed to participate in certain banking practices, regarded as being non-Shariah-compliant.

The board, in conjunction with the bank's directors' affairs committee, is tasked with ensuring adherence to the principles espoused in King IV, in the interests of promoting and maintaining the best governance practice ideal. In so doing, the bank recognises and acknowledges that its day-to-day activities impact both society and the environment. Accountability for both is, therefore, entrenched in our organisation's business culture and is actively practised by our members of staff in giving effect to their operational mandate.

SUSTAINABLE DEVELOPMENT DELIVERY
In light of the importance we attach to the effective promotion of the triple bottom line ideal - social, economic and environment (SEE) - our bank adopts a holistic and pragmatic approach to managing this dynamic.

• SOCIAL ISSUES:
We are acutely aware of the fact that South Africa's business community has a moral obligation to assist significantly in addressing this country's social challenges by working to develop and effectively empower the historically disadvantaged, regardless of race, religion or gender.

The bank has executed a long-standing corporate social investment programme, directing support efforts to the fields of education, health and welfare. The 2019 financial year saw the organisation's activation of a series of major national social investment initiatives. These included an extensive drive to provide school shoes to the needy and a comprehensive Winter Warmth programme, with blankets and clothing being disseminated to, especially, the homeless across the country.

In addition, a special Mandela Day project saw staff visiting a range of centres for the elderly, serving them tea and spending quality time with the frail and infirm, while end-of-year fun days around the country again involved staff members, hosting numerous children from a number of orphanages to a special day out, with entertainment, party packs and gifts. Finally, during Arbour Week, the bank planted 300 indigenous trees at 10 schools in six regions and educated learners about the importance of trees in the environment. Participating learners across South Africa were also encouraged to enter environment-related art and poetry competitions arranged by the bank.

We actively encourage staff participation in the execution of such corporate social investment programmes by including these pursuits in staff performance appraisals. We have also formed a committee mandated to advance the idea of staff participation in healthy outdoor pursuits, such as running and walking. This committee also instituted an anti-smoking initiative, bringing to the attention of staff the harmful effects of this practice in the workplace, with the objective of discouraging smoking in and around the business environment.

The 2019 financial year also witnessed the achievement of a major and historic social investment milestone. Al Baraka Bank has aligned its corporate strategy and social investment responsibilities with the global 2030 Agenda for Sustainable Development, a United Nations Development Programme initiative.

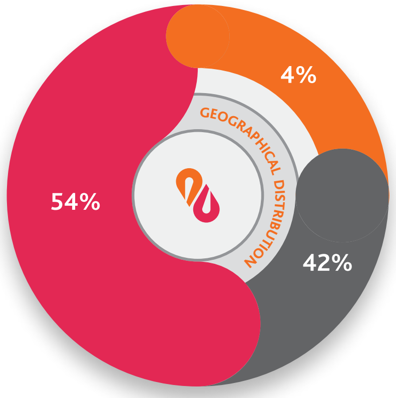
The 2030 Agenda for Sustainable Development encompasses

SUSTAINABILITY REPORT (CONTINUED)

17 Sustainable Development Goals aimed at eradicating poverty, reducing inequality and exclusions, safeguarding the future of the planet and ensuring the world's people enjoy peace and prosperity. Our organisation's view aligns with the United Nations Development Programme's vision of expanding peoples' opportunities, building resilient communities and accelerating the Sustainable Development Goals. Accordingly, we have identified seven of the 17 Sustainable Development Goals in which we are able to make a tangible impact in South Africa and which enable us to go beyond profit for the benefit of people and the planet.

We regard our organisation's alignment with the United Nations Development Programme and the 2030 Agenda for Sustainable Development as the most responsible approach to making a telling and sustainable impact in the face of the vast socio-economic challenges facing South Africa.

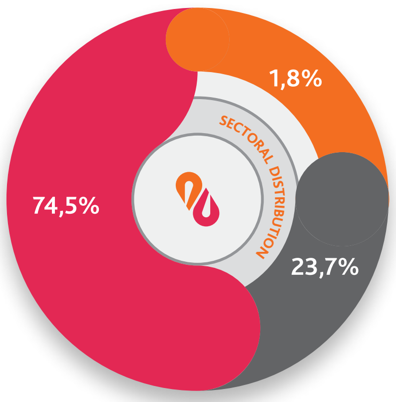
As a consequence of our bank's corporate social investment commitment, we made available R3,1 million to fund the activities detailed above, the geographic and sectoral distribution breakdowns of which are depicted in the graphics below. In addition, a further R10,6 million was donated to a charitable trust.



CAPE TOWN

GAUTENG

KWAZULU-NATAL



HEALTH

EDUCATION

WELFARE

• ECONOMIC ISSUES:
As an authorised financial services and credit provider, we are well aware of our obligations, not only to our clients, but to South African society as a whole.

The prevailing tough economic conditions notwithstanding, we work tirelessly - though responsibly - to maximise business and investment profits on behalf of our clients, whilst remaining fully cognisant of the overriding need to meet the requirements of the National Credit Act, which legislation speaks to the perils of reckless financing. We, accordingly, take our role and position within this country's financial services sector most seriously, employing a realistic methodology with regard to the development and provision of our financial products and services and giving due consideration to ensuring that our clients are capable of servicing their financial commitments to the bank. Our accomplishments in this regard are evidenced by a pleasingly low bad debt ratio; one which remains well inside the industry median.

Ever increasing awareness of Islamic banking, both in South Africa and globally, has enabled the bank to navigate a pleasing growth path in recent years, allowing us to leverage our business footprint and to extend our reach to a broader market, whilst maintaining effective business sustainability within the country's highly competitive and challenging financial sector.

• ENVIRONMENTAL ISSUES:
Our bank holds matters of environmental activation in extremely high regard. Our social and ethics committee is responsible for ensuring the effective protection of the environment, minimising any negative impact our business, staff and related stakeholders may have in the furtherance of degradation, whilst always endeavouring to entrench and adhere to an increasingly eco-friendly approach to the manner in which the bank conducts its business.

OCCUPATIONAL HEALTH AND SAFETY

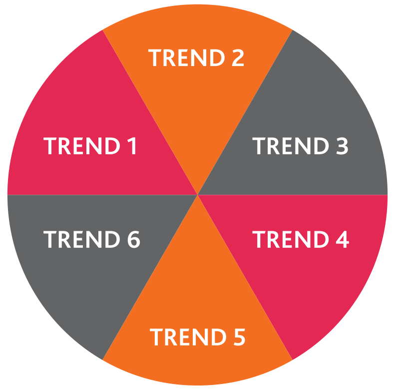
Al Baraka Bank has a legal obligation to ensure both a safe and healthy workplace for its members of staff and all those with whom it interacts within the work environment, inclusive of - but not limited to - clients, contractors, service providers and members of the public. In giving effect to this obligation, we have developed and have in place a comprehensive health and safety policy; a statement of the principles and goals which drive our commitment to ensuring the highest levels of workplace health and safety.

We regard this as the means to providing an effective consultative conduit for the initiation, development, promotion, maintenance and review of measures designed to ensure health and safety within Al Baraka Bank's operating environments nation-wide. The primary objective behind such a policy is, of course, to prevent and/or significantly reduce any work-related accidents or occupational diseases. Ours has been specifically designed to avoid the expense, inconvenience and other consequences associated with workplace accidents by making certain that members of our staff, as well as other related stakeholder groups, are continuously made aware of what is expected of them.

We are fully aware that a lack of compliance standards with regard to health and safety matters - as stipulated in the Act - would render the bank vulnerable and open to the imposition of sanctions, in the form of fines and other penalties. We, accordingly, ensure that matters of health and safety are afforded the same level of priority as our organisation's other key business objectives. In so doing, senior management is charged with accountability for the stringent application of this policy across the organisation, without exception.

We view commitment and involvement as being mutually complementary and essential ingredients for spearheading the success of our health and safety programme. Central to management's compliance with statutory requirements, and the bank's achievement of ever higher standards of health and safety, is an efficient safety management system. In terms of this and given that we believe our human capital to be one of the organisation's most valuable assets, we actively pursue the entrenchment of a safety culture within the bank, employing appropriate resources for the overall protection of our members of staff. This takes into consideration such components as situational aspects - observed through our management systems - policies, working procedures, communication flow and the like, all measured by way of regular audits of the safety management system.

For our part, as the employer, we ensure that our occupational health and safety committee meets at least every three months and that it complies fully with all the prescriptions of the Act.



TREND 1: PREVENTION, NOT DETECTION;
TREND 2: POSITIVELY ADAPTING TO CHANGE IN THE WORKPLACE;
TREND 3: APPOINTING AND TRAINING HEALTH AND SAFETY OFFICIALS;
TREND 4: EMERGENCY PREPAREDNESS;
TREND 5: INCORPORATING NEW HEALTH AND SAFETY RULES; AND
TREND 6: INSPECTIONS OF HAZARDS AND RISKS WITHIN THE WORKPLACE.

ENERGY MANAGEMENT

There is a global call to save energy. Indeed, if it weren't for such a need, there may never have been the necessity to lay claim to the phrase 'energy management'.

However, in today's business environment - and especially in view of the prevailing South African energy crisis - it is incumbent on businesses collectively and actively to cultivate an energy-conscious image, with the development of comprehensive energy management solutions being the first step towards the attainment of improved efficiencies and savings.

In this regard, an energy management plan provides the overall framework for efficient energy usage and for ensuring the achievement of and success in terms of long-term energy efficiency. With ever increasing energy costs, it is important to take control of our energy usage, to promote greater transparency regarding such usage, to work towards improved sustainability, decreased resource consumption and synergy with other management systems.

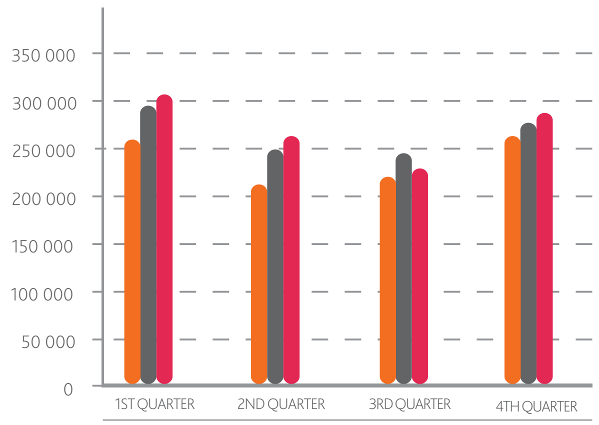
The application of an ethical approach and assumption of social responsibility for the environment form the cornerstone of our best practice ideal with regard to effective energy management into the future.

MONTHLY CONSUMPTIONS

Al Baraka Bank measures both its electricity and water consumption, with a view to achieving a notable reduction in the consumption of both these resources.

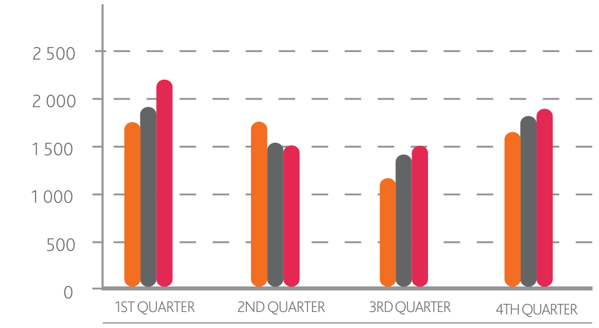
The graphs which follow depict an indication of the quarterly usage of electricity, in kilowatts, and water, in kilolitres, for the past three financial years at our Durban head office and Kingsmead branch.

KINGSMEAD ELECTRICITY CONSUMPTION IN KW FOR 2017/18/19



KW	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
2017	256796	210941	220775	258878
2018	288187	249920	244735	270951
2019	301666	260559	229308	262334

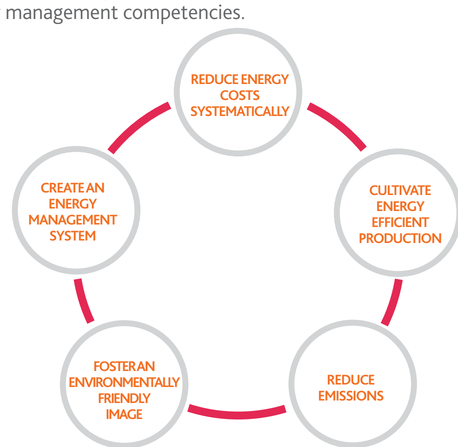
KINGSMEAD WATER CONSUMPTION IN KL FOR 2017/18/19



KL	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
2017	1798	1779	1159	1598
2018	1911	1533	1433	1731
2019	2115	1521	1520	1647

PROGRAMMES INITIATED FOR SUSTAINABILITY

Looking ahead, our environmental sustainability vision for 2020 is to reduce costs, improve our 'Green' credentials and enhance our energy management competencies.



SUSTAINABILITY
REPORT (CONTINUED)

In 2018 we initiated a programme whose purpose was the implementation of solar energy utilisation and enhanced energy efficiencies, as a means of both improving consumption and reducing energy costs within our organisation. Since then, investigations have been undertaken regarding the suitability of solar panel installation at both our Athlone, Cape Town, facility and at our Kingsmead Office Park, Durban, operation. Consideration is currently also being given to installing a large-scale carport on our head office parking deck, to which solar panels may be applied. In addition, we have taken steps to ensure that the disposal of toners and waste paper is effected only through endorsed service providers, with certificates issued guaranteeing safe disposal. In a further company-wide initiative, we have replaced plastic straws, plastic cutlery and polystyrene cups with paper straws, bio-degradable cutlery and paper cups in all our offices' refectory and pause areas.

STAKEHOLDER ENGAGEMENT

Al Baraka Bank's philosophy and approach to stakeholder engagement is shaped by both recommendations cited in King IV and by our own core values. In this respect, our board adopts a stakeholder-inclusive approach; one which clearly balances the needs, interests and expectations of material stakeholders in the best interests of the bank over time. The execution of this approach has culminated in the formulation of a policy dealing with stakeholder engagement, whilst the ideals and philosophies behind effective stakeholder engagement is given practical expression through our stakeholder engagement committee, a body tasked with the ongoing monitoring of engagements with such diverse audiences.

• CLIENTS:

The bank places a premium on providing clients with superior banking experiences, with staff members required to deliver exceptional service with all their dealings and interactions with clients.

Reasons for engagement:
- To effectively meet and - where possible - exceed the financial expectations of clients;
- To provide professional advisory services at all times;
- To give effect to quality in-branch and online transactions;
- To provide clients with appropriate documentation to meet their individual reporting and regulatory requirements;
- To afford clients the opportunity to utilise a customer service facility, with the objective of resolving concerns, in both an efficient and timely manner; and
- To allow clients the ability to anonymously report any and all instances of suspected fraudulent activity via a dedicated anti-fraud hotline.

Frequency of engagement:
- Ongoing.

2019 engagement:
- Launch of a '43+3+3' client engagement strategy, involving a series of road-show functions to address our Sukuk issuance, unit trust details and matters of general information;
- Surveys conducted with clients on a number of subjects, resulting in a positive Net Promoter score;
- Communication via the bank's various social media platforms;
- Day-to-day interaction with branch staff and consultants; and
- Communication with management, via the bank's customer service and complaints line.

• STAFF:

Our members of staff are regarded as a critical resource, essential to the success of the bank. Accordingly, every effort is made to keep staff members fully informed with regard to strategy, objectives, developments and achievements.

Reasons for engagement:
- To inculcate a bank-wide culture of service excellence;
- To embed a keen sense of the need for high ethical conduct at all times;
- To ensure the meaningful empowerment of individuals to effectively deliver against their key performance areas;
- To address, in a timely manner, any and all staff-related concerns and queries; and
- To promote a safe and healthy business environment.

Frequency of engagement:
- Ongoing.

2019 engagement -
- The implementation of a series of staff communication sessions to address:
  - Health and wellness;
  - Board and board committee feedback;
  - Opinion surveys; and
  - The responsible use of social media and the creation of a greater sense of fraud awareness.
- Intranet access and communication;
- E-learning interventions; and
- Video-link conferences.

• SHAREHOLDERS:

Shareholders represent a key set of stakeholders who are dependent on the timely and relevant communication of information regarding the financial performance of the bank, its developments and its achievements.

Reasons for engagement:
- To augment corporate governance relationships with other stakeholder groups;
- To inform shareholders of current developments and achievements, which may have an impact on their shareholding;
- To comply with statutory requirements, including the provision of approved annual financial statements and discussion and approval of resolutions;
- To ensure the provision of accurate and updated shareholder information; and
- To ensure shareholder information is factually correct at all times for ongoing FICA purposes.

Frequency of engagement -
- Annually and as and when a specific needs arises.

2019 engagement -
- Annual general meeting; and
- Written and electronic communication.

• COMMUNITY:

Engagement with the broader communities within which our bank is active enables the development and nurturing of close personal relations, which are mutually beneficial and create an environment conducive to assisting in fostering the greater good of society.

Reasons for engagement:
- To consider and assess the needs of the community;
- To maintain sound working relationships with community leaders and members;
- To create widespread awareness of the bank's social investment programme within communities; and
- To share with the community the bank's diverse range of service offerings.

Frequency of engagement:
- Ongoing.

2019 engagement:
- The implementation of a series of community-based initiatives, inclusive of:
  - Caring for and accompanying elderly and infirm members of the community on Mandela Day;
  - Outings for young orphans in the community; and
  - Arbour Week tree-planting and learner education regarding the importance of trees in community environments.
- The undertaking of social networking sessions;
- The widespread dissemination of corporate social investment activity information; and
- The utilisation of community media channels to impart bank-related information on a range of business topics of interest to members of the broad community.

• REGULATORY AND OTHER INDUSTRY BODIES:

Regulatory bodies in the financial sector represent a vital stakeholder group, affording us the ability to demonstrate transparency of action, business respect and good faith in all our endeavours.

Reasons for engagement:
- To ensure the development of sound working relationships and compliance with all laws and regulations;
- To demonstrate, through its various business relationships, reasons why the bank should be allowed to retain its banking licences; and
- To ensure operational risk to the bank is minimised.

Frequency of engagement:
- Weekly/monthly in terms of the submission of regulatory returns; and
- Annually with regard to prudential meetings with the board, audit committee and chairman of the board.

2019 engagement -
- Provision of regulatory returns; and
- Engagements with:

Regulatory:
  - The Prudential Authority of the South African Reserve Bank;
  - The Financial Intelligence Centre;
  - The Financial Sector Conduct Authority;
  - The National Credit Regulator; and
  - The CIPC.

Industry:
  - Banking Association South Africa (BASA);
  - The South African Banking Risk Information Centre (SABRIC);
  - Banking ombudsman; and
  - Payments Association of South Africa.

• MEDIA:

The media is regarded as a key stakeholder for the dissemination of bank and industry-based news of importance to and for the information of other stakeholder groups and the general public.

Reasons for engagement:
- To publicise the business activities and achievements of the bank;
- To create awareness of Islamic banking as an alternative to conventional banking models;
- To educate the public with regard to financial products offered by Al Baraka Bank, inclusive of Sukuk (investment certificates), Ijarah Vehicle Finance and the like;
- To indicate to media houses that the bank may be regarded as a credible source for a wide range of reliable finance-related news material; and
- To develop media relationships with senior media representatives for the provision of authoritative comment and opinion with regard to finance-related matters and current affairs within the finance/banking sector.

Frequency of engagement:
- Ongoing

2019 engagement:
- The dissemination of an extensive number of proactively generated media releases and statements of a finance, business and corporate social investment nature; and
- The securing of airtime for live and/or recorded interviews with senior bank officials on radio/television.

• SUPPLIERS AND CONTRACTORS:

Working in line with its preferential procurement policy, the bank endeavours to ensure that its suppliers and contractors are kept informed about its operations, activities and, especially, its specific needs in the interest of securing the most appropriate and cost-effective services. In addition and because the cash-flows of, especially, small/medium enterprises is critical, the bank communicates its commitment to ensuring timely settlement of supplier and contractor invoices as a component of its ethical approach to business.

Reasons for engagement:
- To develop a database of enterprises, in accordance with its procurement policy, for the sourcing of required products and services;
- To facilitate the financial sustainability of small suppliers and contractors through early invoice settlement;
- To secure, wherever possible, suppliers and contractors with an environmental conscience in the quest to conserve resources; and
- To promote the utilisation of preferred local suppliers and contractors.

Frequency of engagement:
Ongoing

2019 engagement:
- Maintenance service providers;
- Marketing, social and media relations agencies;
- Professional services, delivered by legal, audit and human resources service providers;
- Travel and accommodation service providers; and
- Infrastructure and shop-fitting service providers.

• ISLAMIC SCHOLARS AND ORGANISATIONS:

Being a commercial and fully-fledged Islamic financial institution, Al Barak Bank maintains sound relationships with recognised Islamic scholars and organisations.

Reasons for engagement:
- To promote the fact that the bank continuously adheres to its guiding Islamic banking principles;
- To seek clarity on matters of Shariah interest; and
- To maintain healthy links with identified Shariah bodies.

Frequency of engagement:
- Ongoing

2019 engagement:
- Islamic Banking and Finance Seminar for Islamic Scholars;
- Weekly Educational Radio Programmes on Islamic Banking and Finance;
- AAOIFI Shariah Board Members Conference;
- AAOIFI World Bank Conference; and
- Association of Shariah Committee Members Meeting.

CONCLUSION

We deem sustainability reporting to comprise a critical element of our strategic thinking, regarding it as a material depiction of our overall business footprint. Our goal is to merge the ultra-modern management of our United Nations Development Plan-aligned social impact, economic performance and commitment to environmental preservation for the betterment of people and planet. We acknowledge that much ground-work remains to be done in striving towards the improved articulation of sustainability reporting, thus enabling us to reach superior levels of governance practice, business transparency, responsibility and accountability. Whilst our social, economic and environment disclosure intent remains steadfast, we cannot convey a complete analysis, and confirm that no declaration is made in terms of our environmental safeguard measures in 2019.

COMPLIANCE REPORT

COMPLIANCE RANKED HIGHLY ON THE RADARS OF MOST ORGANISATIONS DURING THE 2019 FINANCIAL YEAR. TREMENDOUS EMPHASIS HAS BEEN PLACED ON COMPANY COMPLIANCE FUNCTIONS AND THEIR IMPORTANCE WITHIN ORGANISATIONS, ESPECIALLY BANKS.

Financial institutions are required to maintain a strong compliance and corporate governance culture. In this regard, Al Baraka Bank has consistently applied the highest level of ethical standards and ensured that the it complies with all regulatory and supervisory requirements.

Key regulatory considerations within the banking industry during 2019 revolved around the implementation of the Financial Intelligence Centre (FIC) Amendment Act and contemplation of the Conduct of Financial Institutions Bill.

The FIC Amendment Act has sought to strengthen the ongoing relationship with the Financial Action Task Force (FATF), by giving effect to some of the FATF recommendations. In keeping with a new robust risk-based approach, financial institutions have the ability to formulate rules to suit their unique risk appetite, though 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 implement risk-reduction efforts according to the banks' business strategies.

WE REMAIN COMMITTED TO DEVELOPING AND MAINTAINING A SOLID AND DURABLE COMPLIANCE CULTURE

Financial institutions were required to implement a Compliance and Risk Management Programme, which allowed for the freedom of writing into policy the terms and conditions they wish to adopt, again, subject to guidance afforded by the authorities. The FIC Amendment Act has improved the protection of the integrity of South Africa's financial system and strengthened its ability to prevent and punish financial crime.

The draft Conduct of Financial Institutions Bill received a lot of attention during the year under review. Financial institutions provided comment regarding the Bill to National Treasury and the Financial Sector Conduct Authority.

Various consultations were also held with National Treasury and the Financial Sector Conduct Authority in order to discuss the Bill and any concerns the financial services industry might have had in this regard.

Another Act that continued gaining traction in 2019 was the Protection of Personal Information Act (POPIA). The era of advanced technology has resulted in increased levels of cyber crime, hacking, identification theft and other illegal or unethical activities.

This has given rise to the need for significantly heightened awareness of and implementation of improved personal data defences. Such legislation works to protect the personal information which may be processed by private and public bodies across South Africa. In spite of the fact that POPIA has not yet been deemed fully effective, given that no commencement date has been set, the Information Regulator has been involved in considering and investigating potential data breaches or complaints regarding the misuse of personal information.

The Information Regulator recently published draft Guidelines to Develop Codes of Conduct for comment. Thereafter, the Information Regulator consulted with the public on the draft Code and is to revert to the industry once all provided comments have been reviewed. Once a commencement date for the Act has been set, organisations will be afforded 12 months to comply with the Act.

As a consequence of the impact of these regulatory changes, we have activated several projects, inclusive of implementing new systems and developing new processes. These have come at great cost to the bank, although we acknowledge the fact that such changes are necessary for our bank's alignment with both local and international best practise, with the emphasis on implementing sustainable solutions for the future of our financial institution.

We maintain a resilient stance on training, constantly striving to ensure that members of staff are exposed to relevant and appropriate training before being required to consult with relevant stakeholder groups.

The compliance division 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 satisfying this role, the compliance division independently facilitates training programmes and continuously engages with the human resources division to ensure that staff members receive the necessary training interventions.

The bank's regulatory universe, containing legislation which impacts on the business, continues to play a significant role within the compliance division.

Another critical compliance division function involves detailed interaction with other divisions within the organisation, making certain that appropriate controls are in place in order to give effect to compliance with various legislative requirements, regulations, supervisory requirements and international best practice.

The compliance division also works in tandem with other assurance providers, so ensuring the adequate observance of corporate governance principles by the bank. This, in turn, gives effect to the combined assurance model, which is in line with the requirements of King IV.

Representatives of our compliance division serve on a number of strategic forums and committees, whilst also providing guidance to both our board and management team in terms of issues of regulatory and reputational risk.

Compliance monitoring is regarded as a powerful tool to make certain that ethics and compliance processes continue to work and constantly show improvement. Accordingly, the compliance division adheres to a stringent monitoring programme, which assists in maintaining a close watch on the level of compliance by our organisation's line management.

Monitoring in respect of the FAIS Act, AML/CTF and a number of other legislation remain a focal point of interest for the compliance division. This ensures a sophisticated banking system, backed by a sound regulatory and legal framework, aimed at ensuring systemic stability, institutional safety and soundness and the effective promotion of consumer protection. We apply a zero tolerance policy with regard to non-compliance with any legislation.

Members of staff who flagrantly disregard compliance face strict disciplinary action, especially in the case of repeat offenders. Accordingly, the compliance division plays a crucial role in identifying regulatory non-compliance and reporting such matters to relevant management and the board.

The compliance division actively engages with a number of committees within such industry bodies as the Banking Association South Africa, the South African Banking Risk Identification Centre and other ad hoc committees, so affording our bank the opportunity to contribute towards influencing regulatory reform affecting the industry and country.

With regard to our membership with the Banking Association South Africa, we enjoy dynamic interaction and utilise our representative presence to offer recommendations and present feedback with regard to issues raised at the relevant meetings of various committees.

We preserve a precise balance between steadfast compliance to laws and regulations and the requirements of our clients, given that client service and, ultimately, customer satisfaction are amongst our core objectives.

We remain committed to developing and maintaining a solid and durable compliance culture within the bank, which is managed from the top and entrenched at every level of the organisation.

Al Baraka Bank fully adheres to Shariah and we take a hard-line stance with regard to ensuring ethical banking, thus providing clients the peace-of-mind that their best interests are being effectively and professionally managed to the highest ethical standards.

Our bank is driven by a comprehensive set of values, ensuring the organisation grows in strength and delivers greater value to our clients. Our bank has made and continues to make significant inroads in this country's banking and financial services industry, characterised - as it is - by a keen sense of responsibility and the highest possible ethical principles.

SHARIAH REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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;
- Ijarah Financing;
- Equity Murabaha Transactions;
- ABL Sukuk;
- Islamic Wills and Administration of Estates;
- Profit Distribution;
- Management Accounts;
- Disposal of Impermissible Income;
- Calculation of Zakah;
- FOREX Transactions; and
- Banking and Finance Fees.

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 46,5 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

30 January 2020

SHARIAH SUPERVISORY BOARD

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 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 Ghuddah 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. Dr Ghudda 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, worked closely with well-known contemporary Shariah expert, Shaykh 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. In 2005, he 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 Certified Shariah Advisor and Auditor certified by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) in Bahrain. He has an Advanced Diploma in Islamic Banking and Finance from the Karachi-based Centre for Islamic Economics. He serves on a number of Shariah Supervisory Boards and has participated and contributed at various Global forums on Islamic Finance.

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.

The following funds and portfolios are currently being managed by Old Mutual Investment Group in partnership with Al Baraka Bank:
Old Mutual Albaraka Equity Fund
Old Mutual Albaraka Balanced Fund
Old Mutual Albaraka Income Fund*
Old Mutual Global Islamic Equity Fund
Old Mutual Customized Solutions*
* Dr Abdus Sattar Abu Ghudda is not a member of these funds. The Chairman thereof is Shaykh Mahomed Shoaib Omar.

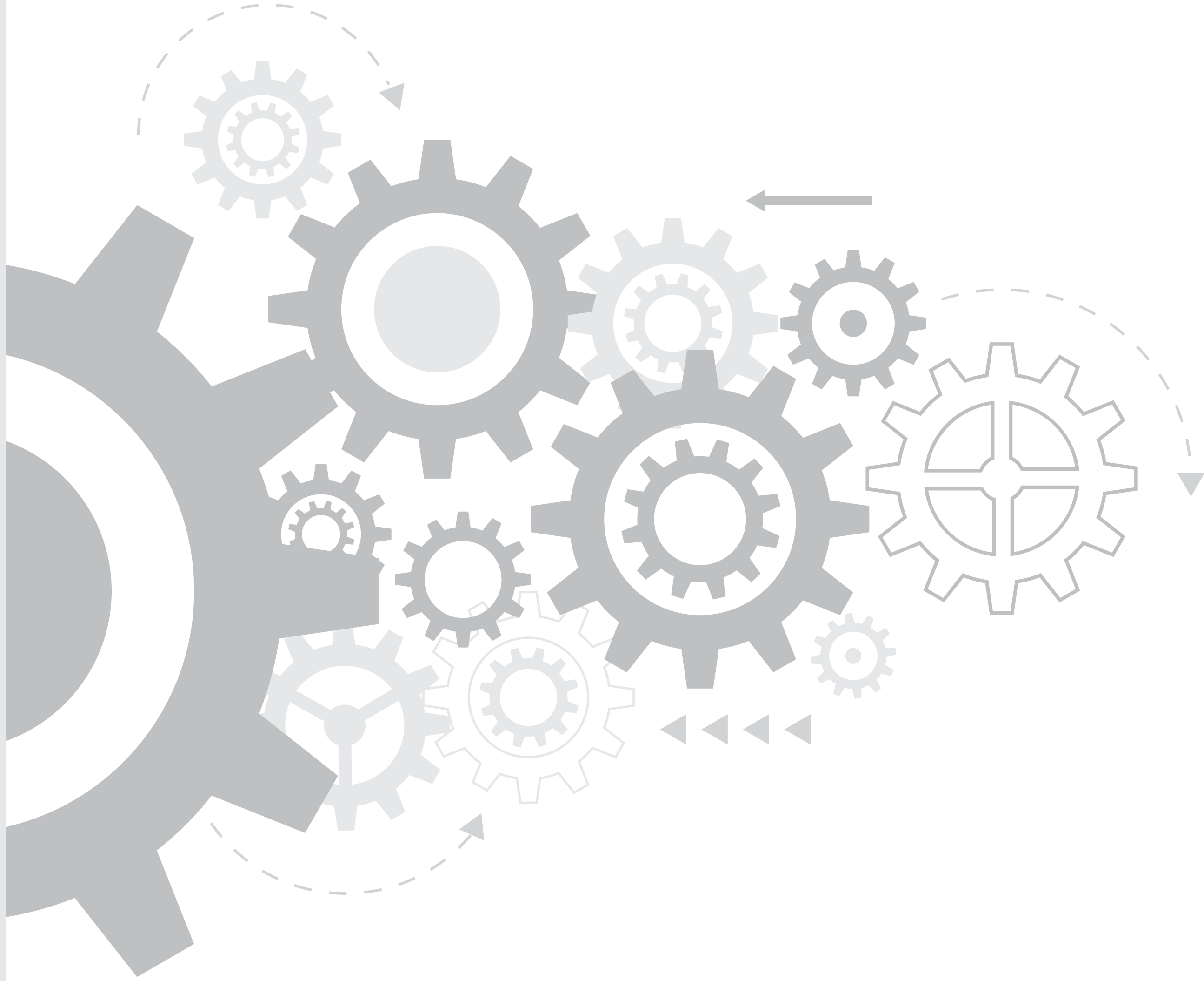
MEMBERS OF THE SHARIAH SUPERVISORY BOARD

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 report to the Shariah Supervisory Board. The appointment of an independent Shariah Supervisory Board to supervise the bank and the Shariah unit trust funds is indicative of Al Baraka Bank's absolute commitment to operate in conformity to Islamic economic principles as derived from Shariah Law.



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FINANCIAL STATEMENTS
2019

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

NATURE OF BUSINESS
Islamic Financial Services

AUDITORS
Ernst & Young Inc.

REGISTERED OFFICE
2 Kingsmead Boulevard
Kingsmead Office Park
Stalwart Simelane Street
Durban, 4001
PO Box 4395
Durban, 4000

PARENT AND ULTIMATE HOLDING COMPANY

Al Baraka Banking Group B.S.C.

REGISTRATION NUMBER

1989/003295/06

COUNTRY OF INCORPORATION
Republic of South Africa

CONTENTS

The financial statements of Albaraka Bank Limited have been audited in compliance with S30 of the Companies Act of South Africa. Al Baraka Bank's Osman Moosa Gani CA (SA), the accountant, and Abdullah Ameed CA (SA), the financial director of Albaraka Bank Limited, was responsible for the preparation 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 2019 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 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 93 were approved by the board of directors on 20 March 2020 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
20 March 2020

AUDIT
COMMITTEE REPORT

DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2019, THE AUDIT COMMITTEE CONVENED SEVEN TIMES TO DISCHARGE BOTH ITS STATUTORY AND BOARD RESPONSIBILITIES. AS AN OVERVIEW ONLY, AND NOT TO BE REGARDED AS AN EXHAUSTIVE LIST, THE COMMITTEE CARRIED OUT THE FOLLOWING DUTIES:

ANNUAL FINANCIAL STATEMENTS
The committee has evaluated the group annual financial statements. Amongst others, the committee:
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 reviewed interim reports.

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. Furthermore 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. Accordingly 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 25 June 2020.

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:

- 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;
- Ensured that the internal audit plan was risk-based and addressed specific and critical risks of the company;
- Approved the internal audit plan;
- Regularly met separately with the internal audit manager;
- Considered the quality assurance review of the bank's internal audit function conducted by the Albaraka Banking Group and were satisfied that no material items were identified; and
- Did not receive any complaints relating to the internal audit of the company.

EXTERNAL AUDIT AND RELATED MATTERS
Ernst & Young Inc. are the company's appointed external auditors. The committee has played an oversight role in respect of the external audit process to ensure its effectiveness. Amongst others, the committee:

- Reviewed and considered the accreditation pack presented for the audit firm and lead audit partner;
- Approved Ernst & Young Inc's. terms of engagement;
- Approved the appointment of the new lead audit partner which was subsequently approved by the Prudential Authority;
- Reviewed the quality and effectiveness of the external audit process;
- Reviewed the external auditor's report to the committee and management's responses thereto;
- Reviewed significant judgements and/or unadjusted differences resulting from the audit, as well as any reporting decisions made;
- 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;
- Regularly met separately in confidence with Ernst & Young Inc.;
- At the invitation of the Prudential Authority, attended the trilateral meeting together with the external auditors;
- Through enquiry, ascertained that Ernst & Young Inc. has not identified any irregularity that required reporting thereof to IRBA;
- Evaluated and were satisfied with the independence of Ernst & Young Inc.; and
- Assessed and noted the tenure of the current auditors as 11 years.

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.

FINANCE FUNCTION
The committee has satisfied itself that the financial director and finance department have the appropriate expertise and experience required for the finance function.

YGH Suleman
Chairman of the Audit Committee
20 March 2020

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

TO THE SHAREHOLDERS OF ALBARAKA BANK LIMITED

OPINION

We have audited the consolidated and separate financial statements of Albaraka Bank Limited and its subsidiaries ('the group') and company set out on pages 36 to 93, which comprise the consolidated and separate statements of financial position as at 31 December 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in 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.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group and company as at 31 December 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

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 and company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together with the IRBA Codes) and other independence requirements applicable to performing audits of financial statements of the group and company and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the group and company and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. 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 comprises the information included in the document titled Albaraka Bank Limited Annual Financial Statements for the year ended 31 December 2019, which includes the Directors' Report, Company Secretary Statement and Audit Committee Report as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate 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 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 and company'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 and company 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 and company'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 and company'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 and/or the company 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 and Young Inc. has been the auditor of Albaraka Bank Limited for 11 years.

Ernst & Young Inc

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Ernst & Young Inc.
Director: Farouk Ebrahim
Registered Auditor
Chartered Accountant (SA)

20 March 2020
Durban

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

THE DIRECTORS HAVE PLEASURE IN PRESENTING THEIR REPORT FOR THE YEAR ENDED 31 DECEMBER 2019.

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 million (2018: 100 million) ordinary shares of R10 each, amounting to R1 billion (2018: R1 billion). The issued share capital of the company comprises 32,2 million (2018: 32,2 million) ordinary shares of R10 each, amounting to R322,4 million (2018: R322,4 million).

Financial results
The results of the group and the company for the year ended 31 December 2019 are set out on pages 29 to 93.

Dividends
On 20 March 2019 the directors declared a dividend of 55 cents (2018: 55 cents) per share amounting to R17,7 million (2018: R17,7 million) paid to shareholders registered as at close of business on 05 July 2019.

Group structure
Albaraka Properties Proprietary Limited is a wholly-owned subsidiary of Albaraka Bank Limited. 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. 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.

Capital management
The bank continues to work towards strong management of its capital reserves. In 2019, the Bank issued a further R107.7m sukuk over and above the already subscribed value of R200m via the Albaraka Sukuk Trust. This brings the total Sukuk in issue to R307.7m as at the 31st of December 2019 (2018: R200m).

Events after the reporting period
There are no material adjusting events after the financial period that require reporting. The directors are aware that the corona virus pandemic may influence the results for the 2020 financial year. The impact of this risk is currently being considered by management and the board.

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

Non-independent non-executive		
AA Yousif	(Bahraini)	Chairman
SA Randeree	(British)	Vice chairman - lead independent director till 31 March 2019
MS Paruk CA(SA)		
F Kassim	(Sri Lankan)	
A Lambat CA(SA)		
MJD Courtiade CA(SA)	(French)	
Independent non-executive		
YGH Suleman CA(SA)		Lead independent director from 1 April 2019
Adv JMA Cane SC		
ZH Fakey CA(SA)		Appointed on 1 March 2019
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 and registered address	**Postal Address**
2 Kingsmead Boulevard	P O Box 4395
Kingsmead Office Park	Durban
Stalwart Simelane Street	4000
Durban	
4001	

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

		GROUP		COMPANY	
		2019	2018	**2019**	2018
	Notes	**R'000**	**R'000**	**R'000**	**R'000**
Assets					
Property and equipment	3	**116 502**	116 175	**34 288**	56 615
Right of use asset	33	**13 698**	-	**34 139**	-
Investment properties	4	**10 339**	10 339	**-**	-
Intangible assets	5	**56 366**	36 992	**56 366**	36 992
Investment in and amount due by subsidiary company	6	**-**	-	**20 200**	20 148
Deferred tax asset	7	**-**	-	**27 311**	23 685
Investment securities	8	**25 723**	24 425	**25 723**	24 425
Advances and other receivables	9	**6 521 694**	5 976 252	**6 521 495**	5 976 094
South African Revenue Service	10	**1 792**	-	**1 714**	-
Regulatory balances	11	**398 883**	374 922	**398 883**	374 922
Cash and cash equivalents	12	**218 362**	295 112	**214 315**	294 907
Total assets		**7 363 359**	6 834 217	**7 334 434**	6 807 788
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		**1 753**	876	**1 753**	876
Retained income		**364 246**	307 647	**342 294**	286 871
Shareholders' interests		**770 598**	713 122	**748 646**	692 346
Liabilities					
Welfare and charitable funds	14	**25 807**	20 031	**25 807**	20 031
Accounts payable	15	**48 605**	40 010	**44 071**	39 135
Lease liabilities	33	**14 758**	-	**14 758**	-
Deferred tax liability	7	**2 278**	4 670	**-**	-
South African Revenue Service	16	**383**	1 478	**178**	1 350
Provision for leave pay	17	**11 348**	8 940	**11 348**	8 940
Deposits from customers	18	**6 180 299**	5 844 299	**6 180 299**	5 844 299
Sukuk holders/Albaraka Sukuk Trust	19	**309 283**	201 667	**309 327**	201 687
Total liabilities		**6 592 761**	6 121 095	**6 585 788**	6 115 442
Total equity and liabilities		**7 363 359**	6 834 217	**7 334 434**	6 807 788

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

		GROUP		COMPANY	
		2019	2018	**2019**	2018
	Notes	**R'000**	**R'000**	**R'000**	**R'000**
Income earned from advances		**496 029**	479 077	**496 029**	479 077
Income earned from equity finance*		**84 678**	45 930	**84 678**	45 930
Income earned from Mudaraba deposits*		**12 084**	12 826	**12 084**	12 826
Gross income earned		**592 791**	537 833	**592 791**	537 833
Income paid to depositors	20	**(272 588)**	(254 876)	**(272 587)**	(254 875)
Income paid to Sukuk holders/Albaraka Sukuk Trust		**(19 667)**	(11 156)	**(19 538)**	(11 372)
Net income before impairment for credit losses		**300 536**	271 801	**300 666**	271 586
Credit loss expense		**(2 099)**	101	**(2 099)**	101
Net income after impairment for credit losses		**298 437**	271 902	**298 567**	271 687
Net non-islamic income	21	**-**	-	**-**	-
Fee and commission income	22	**46 252**	45 922	**46 507**	46 165
Other operating income	23	**3 914**	4 342	**10 274**	10 649
Net income from operations		**348 603**	322 166	**355 347**	328 501
Operating expenditure	24	**(245 097)**	(235 139)	**(247 526)**	(237 620)
Finance costs		**(1 366)**	-	**(10 180)**	(9 416)
Profit before taxation		**102 140**	87 027	**97 642**	81 465
Taxation	25	**(27 770)**	(21 735)	**(24 448)**	(18 181)
Profit after tax for the year attributable to equity holders		**74 370**	65 292	**73 194**	63 284
Other comprehensive income Items not subsequently reclassified to profit and loss					
Fair value profit/(loss) net of tax	26	**877**	(584)	**877**	(584)
Total comprehensive income for the year, net of tax, attributable to equity holders		**75 247**	64 708	**74 071**	62 700
Weighted average number of shares in issue ('000)		**32 240**	32 240		
Basic and diluted earnings per share (cents)	27	**230.7**	202.5		

* the comparatives have been restated, please see note 36

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Share capital	Share premium	Other reserves	Retained income	Shareholders' interest
		R'000	R'000	R'000	R'000	R'000
Group						
2019						
Balance at beginning of year		322 403	82 196	876	307 647	713 122
IFRS 16 opening balance adjustment	7				(39)	(39)
Restated opening balance		322 403	82 196	876	307 608	713 083
Profit after tax		-	-	-	74 370	74 370
Dividends declared	28	-	-	-	(17 732)	(17 732)
Other comprehensive income	26	-	-	877	-	877
Balance at end of year		322 403	82 196	1 753	364 246	770 598
2018						
Balance at beginning of year		322 403	82 196	1 460	255 532	661 591
IFRS 9 opening balance adjustment		-	-	-	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	28	-	-	-	(17 732)	(17 732)
Other comprehensive income	26	-	-	(584)	-	(584)
Balance at end of year		322 403	82 196	876	307 647	713 122
Company						
2019						
Balance at beginning of year		322 403	82 196	876	286 871	692 346
IFRS 16 opening balance adjustment					(39)	(39)
Restated opening balance		322 403	82 196	876	286 832	692 307
Profit after tax		-	-	-	73 194	73 194
Dividends declared	28	-	-	-	(17 732)	(17 732)
Other comprehensive income	26	-	-	877	-	877
Balance at end of year		322 403	82 196	1 753	342 294	748 646
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	28	-	-	-	(17 732)	(17 732)
Other comprehensive income	26	-	-	(584)	-	(584)
Balance at end of year		322 403	82 196	876	286 871	692 346

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
Cash flow from operating activities					
Cash generated from operations	29.1	134 169	106 902	124 947	97 062
Changes in working capital	29.2	(111 561)	2 219	(115 178)	1 159
Taxation paid	29.3	(36 072)	(14 313)	(33 960)	(12 468)
Dividends paid	29.4	(17 590)	(17 689)	(17 590)	(17 689)
Net cash inflow from operating activities		(31 054)	77 119	(41 781)	68 064
Cash flow from investing activities					
Purchase of property and equipment	29.5	(13 238)	(14 673)	(13 301)	(10 319)
Purchase of intangible assets	29.6	(27 276)	(16 637)	(27 276)	(16 637)
Purchase of investment securities	8	(191)	(83)	(191)	(83)
Proceeds from disposal of property and equipment		592	220	592	164
Dividend income	23	1 619	1 436	8 619	8 436
Increase in investment in and amount due by subsidiary		-	-	(52)	(2 206)
Net cash utilised in investing activities		(38 494)	(29 737)	(31 609)	(20 645)
Cash flow from financing activities					
Settlement of lease liabilities - capital and deemed interest		(4 138)	-	(4 138)	-
Net cash utilised in financing activities		(4 138)	-	(4 138)	-
Net (decrease)/increase for the year		(73 686)	47 382	(77 528)	47 419
Net foreign exchange difference on cash on hand		(3 064)	1 292	(3 064)	1 292
Cash and cash equivalents at beginning of year		295 112	246 438	294 907	246 196
Cash and cash equivalents at end of year	12	218 362	295 112	214 315	294 907

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

ACCOUNTING POLICIES

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 group for the year ended 31 December 2019 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 lease liability under IFRS16 the bank used a weighted average incremental borrowing rate of 9,25%, which is the prime rate applicable at implementation of 10,25% less 1%, as management has assessed that this would be the best estimate as a borrowing rate based on enquiries made from other banks related to medium to long-term borrowing rates that could be afforded to the bank.
- 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

The measurement of impairment losses 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 expected credit losses (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.

New and amended standards and interpretations effective 01 January 2019

IFRS 16 Leases

In the context of the transition to IFRS 16, right of use assets and lease liabilities were recognised as at 1 January 2019. The Bank transitioned to IFRS 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted.

The right of use asset equals to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The deferred tax on the reversal of the previous straight lining lease treatment has been taken against retained earnings.

In addition, the bank has decided to apply the exemption afforded in the standard to leases whose term will end within 12 months of the date of initial application. In such cases, the leases will be accounted for as short-term leases and the lease payments associated with them will be recognised as an expense from short-term leases.

The bank has lease contracts for office space and automated teller machines (ATM) used in its operations. Leases of office space generally have lease terms between 1 and 5 years. The bank's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the bank is restricted from assigning and sub-leasing the leased assets. Several of the lease contracts include extension and termination options. However, there are no variable lease payments.

Based on the application of the modified retrospective approach of IFRS 16 the previously recognised finance lease asset is recognised as a right of use asset and is no longer accounted for as land and buildings in the company.

See note 33 for detailed disclosures.

IFRIC 23

IFRIC 23 clarifies the accounting for uncertainties in income taxes.

The interpretation is to be applied to the determination of taxable profit or taxable loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

The bank has not identified any impact from this standard based on its current taxation treatments.

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

Albaraka Sukuk Trust was created specifically as a structured entity 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. 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. FINANCIAL INSTRUMENTS

IFRS 9 Financial instruments

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. These are then classified as follows:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income;
- Equity instruments at fair value through other comprehensive income, no subsequent recycling to profit and loss; and
- Financial assets fair value through profit and loss.

Impairment calculation

IFRS 9 accounts for advances loss impairments with a forward-looking expected credit losses (ECL) approach. IFRS 9 requires the bank to record an allowance for ECL for all advances, together with advance commitments and financial guarantee contracts. The allowance is based

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

ACCOUNTING POLICIES (continued)

on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

IFRS 9 is an expected credit loss model which broadens 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'.
The standard requires 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 its business contains a significant financing component and has thus applied the general approach.

5. SIGNIFICANT ACCOUNTING POLICIES

Recognition of profit:

The effective profit rate method

Profit is recorded using the effective profit rate (EPR) method for all financial instruments measured at amortised cost. Profit from financial assets are measured at fair value through other comprehensive income under IFRS 9. 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 shortfall 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 (PD)
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 (EAD)
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 (LGD)
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 case and a downturn case. Each of these is associated with different PD, EAD and LGD. 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 ECL that represent the ECL that results 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 ECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PD and LGD are estimated over the lifetime of the instrument. The expected cash shortfalls 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 ECL for undrawn loan commitments, the bank estimates the expected portion of the commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the facility is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EPR on the advance.

For trade facilities that include both an advance and an undrawn commitment, ECL 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 ECL 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 ECL 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 ECL 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 ECL 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 ECL, 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 growth;
- CPI;
- Debt to disposable income;
- New vehicles;
- Prime financing rate;
- Insolvencies; and
- Housing Price Index.

The inputs and models used for calculating ECL 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. Collateral, unless repossessed, is not recorded on the bank's statement of financial position.

However, the fair value of collateral affects the calculation of ECL. 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

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

ACCOUNTING POLICIES (continued)

Write-offs

Financial assets are written-off either partially or in their entirety only when the bank has no prospects of recovery, or financial assets that have some prospects of recovery are written-off but are still subject to enforcement activity. 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 PD and LGD 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 the 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 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, restructure accounts within the last 6 months and payment arrangements.

These include:
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 counterparty). 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 - 10 years
Vehicles	5 - 8 years
Computer software	2 - 10 years
Computer hardware	3 - 10 years
Leasehold improvements	2 - 10 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

ACCOUNTING POLICIES (continued)

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.

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

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.

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.

Investment securities

Investment securities which are not listed on an active market are measured at fair value and are classified as fair value through other comprehensive income based on the business model, payments of principal and profit assessments. Those securities that are listed are measured at fair value through profit or loss. Dividend income is recognised in profit or loss when the group becomes entitled to the dividend.

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 are 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, consisting of letters of credit, letters of guarantees and confirmations. These guarantees are recognised as off-balance sheet items which are measured at fair value upon initial recognition and are not re-measured subsequently.

11. INCOME TAX EXPENSE

Income tax expense on the profit or loss for the year comprise 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;
- 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.

12. 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;

ACCOUNTING POLICIES (continued)

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 recognised 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.

13. LEASES

Policy as per IAS 17 applicable up until December 2018

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.

Policy as per IFRS 16 applicable from 1 January 2019

The group is party to lease contracts solely for retail branch, corporate office and ATM sites. Leases are recognised, measured and presented in line with IFRS 16.

Group and company as a lessee

The group implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard. The group elected to apply the exemption for short term leases in relation to its Athlone and Cape Town Corporate leases due to the leases being 12 month leases, as well as these leases being intercompany leases.

Based on the accounting policy applied the Group recognizes a right-of-use asset and a lease liability at the commencement date of the contract for all leases conveying the right to control the use of an identified assets for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The bank is not reasonably certain that any of the leases will be extended due to various reasons. Operationally, the bank may not continue to lease the current premises and may look for new premises to lease or to purchase. Due to advanced technology and digitalization, many banks are now moving to a virtual branch network.

With the new core banking system, the bank may consider this as a future option. Therefore, only the initial contractual period has been included in the calculation for the right of use asset and lease liability. The same economic life is applied to determine the depreciation rate of the right of use assets.

Right of use assets and lease liabilities

The right-of-use assets are initially measured as the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The deferred tax on the reversal of the previous straight lining lease treatment has been taken against retained earnings.

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability.

Depreciation is calculated using the straight line method over the contracted lease period.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date of initial application.
The bank used a weighted average incremental borrowing rate of 9,25%, which is the prime rate applicable at implementation of 10,25% less 1%, as management feels that would be the best estimate as a borrowing rate.

After the commencement date the group measures the lease liability by:
- Increasing the carrying amount to reflect interest on the lease liability;
- Reducing the carrying amount to reflect lease payments made; and
- Re-measuring the carrying amount to reflect any reassessment or lease modifications.

14. CASH AND CASH EQUIVALENTS AND REGULATORY BALANCES

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 both of 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.

15. 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 are 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.

16. 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.

ACCOUNTING POLICIES (continued)

Research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognised as an intangible asset when the group can demonstrate:
- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in profit and loss. During the period of development, the asset is tested for impairment annually. Intangible assets are amortised on a straight line basis. The current estimated useful lives are as follows:

Computer software	2 - 10 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.

17. 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.

18. 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.

19. 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 ventures 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.

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

	2019	2018
	R'000	**R'000**
Tier 1		
Share capital	**322 403**	322 403
Share premium	**82 196**	82 196
Retained income	**342 295**	286 872
Less: Unappropriated profits	**(24 582)**	(17 961)
Unrealised gains and losses on fair value through other comprehensive income items net of tax	**1 752**	876
Total capital & reserves	**724 064**	674 386
Less: Prescribed deductions against capital and reserve funds	**(53 594)**	(33 911)
Total Tier 1 capital	**670 470**	640 475
Tier 2		
Stage 1 and stage 2	**8 783**	9 832
Sukuk	**307 700**	200 000
Total eligible capital	**986 953**	850 307
Capital adequacy ratios (Tier 1 %)	**10,9%**	12,2%
Capital adequacy ratios (Total %)	**16,0%**	16,2%
Base minimum regulatory requirement ratios (Total %)	**9,00%**	9,25%

The Sukuk has been approved by the South African Reserve Bank as a qualifying tier 2 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, capital management and compliance 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 2019, 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	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
Credit risk	**468 754**	406 411	**5 208 376**	4 393 630
Operational risk	**55 825**	51 926	**620 278**	561 365
Equity risk	**2 315**	2 259	**25 723**	24 425
Market risk	**2 442**	3 394	**27 133**	36 691
Other risk	**24 287**	21 130	**269 855**	228 432
	553 623	485 120	**6 083 090**	5 244 542

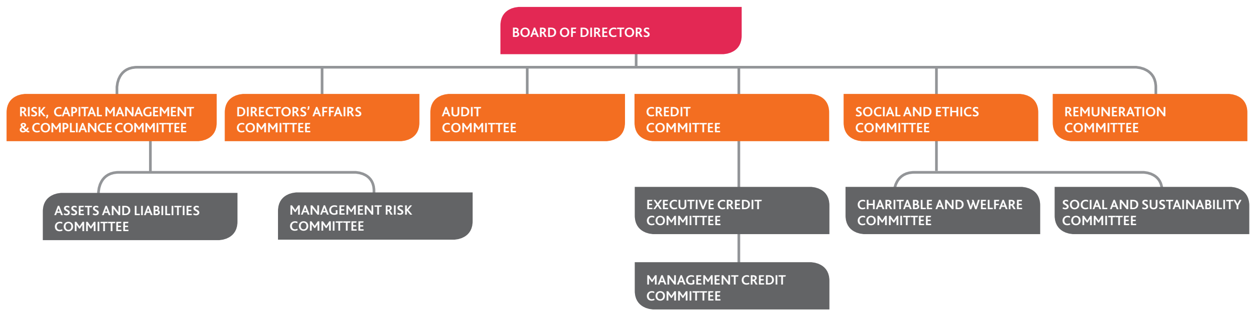
2. RISK MANAGEMENT AND ASSESSMENT

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

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

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

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

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

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

Portfolio measures of credit risk

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:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

- 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	
	2019	2018
	R'000	**R'000**
Credit exposures		
Advances to customers	**5 307 250**	4 874 994
Advances and balances with banks	**1 312 990**	1 183 014
Advances, treasury bills and regulatory balances	**457 635**	542 480
Letters of credit, guarantees and confirmations	**390 981**	268 808
Total exposure	**7 468 856**	6 869 296
Impairment of advances	**(17 014)**	(15 460)
Net exposure	**7 451 842**	6 853 836

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

	GROUP AND COMPANY	
	2019	2018
	R'000	**R'000**
Geographical distribution of exposures		
Customer exposure		
KwaZulu-Natal	**2 991 409**	2 567 477
Gauteng	**1 791 987**	1 718 122
Western Cape	**914 836**	858 203
Total customer exposure	**5 698 232**	5 143 802
Bank exposure		
KwaZulu-Natal	**11 694**	29 072
Gauteng	**1 749 634**	1 689 508
United States of America	**9 296**	6 914
Total bank exposure	**1 770 624**	1 725 494
Total exposure	**7 468 856**	6 869 296
Industry distribution of exposures		
Banks and financial institutions	**1 770 625**	1 725 494
Individuals	**1 485 778**	1 518 013
Business and trusts	**4 212 453**	3 625 789
Total exposure	**7 468 856**	6 869 296

		GROUP AND COMPANY	
		2019	2018
		R'000	**R'000**
Product distribution analysis			
Property (Musharaka and Murabaha)		**4 014 661**	3 753 855
Equity finance and Mudaraba deposits		**1 180 011**	1 089 135
Instalment sales		**702 852**	711 544
Trade		**585 137**	408 843
Balances with local and central banks		**590 614**	636 360
Letters of credit		**2 334**	1 579
Guarantees and confirmations		**388 647**	267 228
Other		**4 600**	752
Total exposure		**7 468 856**	6 869 296
Residual contractual maturity of book			
Within 1 month	- equity finance and Mudaraba deposits	**50 079**	111 019
	- other	**637 629**	568 540
From 1 to 3 months	- equity finance and Mudaraba deposits	**140 262**	461 760
	- other	**562 106**	366 280
From 3 months to 1 year	- equity finance and Mudaraba deposits	**557 982**	-
	- other	**898 821**	862 879
From 1 year to 5 years	- equity finance and Mudaraba deposits	**431 688**	516 356
	- other	**2 033 140**	1 987 499
More than 5 years	- other	**2 157 149**	1 994 963
Total exposure		**7 468 856**	6 869 296

Collateral is held specifically in respect of advances and these predominantly comprise mortgage bonds over fixed property, notarial bonds over movable 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:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

GROUP AND COMPANY	Credit exposure	Collateral cover	Credit exposure	Collateral cover
	2019		2018	
	R'000	**R'000**	R'000	R'000
Standard asset	**4 180 304**	**3 534 655**	3 855 468	3 272 786
Special mention asset	**1 045 132**	**961 920**	935 977	887 507
Sub-standard asset	**28 562**	**27 494**	28 817	25 815
Doubtful asset	**10 447**	**8 465**	35 605	32 863
Loss asset	**42 805**	**37 215**	19 127	15 226
	5 307 250	**4 569 749**	4 874 994	4 234 197

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

GROUP AND COMPANY	2019	2018
	R'000	**R'000**
Past due and individually impaired		
- Individuals	**8 121**	12 831
- Business and trusts	**22 283**	13 498
	30 404	26 329
Past due but not impaired		
- Individuals	**363 667**	411 272
- Business and trusts	**764 458**	744 801
	1 128 125	1 156 073

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 R64,9 million (2018: R42,3 million).

GROUP AND COMPANY	Less than 30 days		30 to 60 days		60 to 180 days		Greater than 180 days		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
An aging analysis of past due advances, which have not been impaired, is disclosed below:										
Individuals	**321 696**	369 373	**19 221**	18 472	**14 537**	15 624	**8 213**	7 803	**363 667**	411 272
Business and trusts	**675 722**	674 066	**47 815**	17 693	**25 358**	38 716	**15 563**	14 326	**764 458**	744 801
	997 418	1 043 439	**67 036**	36 165	**39 895**	54 340	**23 776**	22 129	**1 128 125**	1 156 073

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. Albaraka 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 license.

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

GROUP AND COMPANY		2019	2018
		R'000	**R'000**
Assets held under interest rate risk	- Treasury bills	**260 355**	247 083
Assets held under exchange rate risk	- Foreign currency held	**27 133**	36 691
		287 488	283 774

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 Albaraka 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 provides 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 are 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

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 a board-approved delegated powers of authority;
- The compilation of policies and procedures manual;
- 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	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
Cost				
Land and buildings*	**76 237**	76 237	**-**	63 444
Vehicles	**7 251**	6 512	**7 251**	6 512
Fittings, equipment and computers	**74 174**	63 370	**64 947**	54 080
Leasehold improvements	**21 103**	20 846	**20 396**	20 139
Capital work in progress	**3 660**	3 568	**3 660**	3 568
	182 425	170 533	**96 254**	147 743
Accumulated depreciation and impairment	**(65 923)**	(54 358)	**(61 966)**	(91 128)
Land and buildings*	**-**	-	**-**	(38 773)
Vehicles	**(4 479)**	(4 682)	**(4 479)**	(4 682)
Fittings, equipment and computers	**(47 153)**	(38 125)	**(43 853)**	(36 661)
Leasehold improvements	**(14 291)**	(11 551)	**(13 634)**	(11 012)
Carrying amount	**116 502**	116 175	**34 288**	56 615

* Based on the application of the modified retrospective approach of IFRS 16 the finance lease asset is recognised as a right of use asset and is no longer accounted for as land and buildings in the company.

Land and buildings comprise the following commercial properties presented at their carrying amount as described below:

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
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 3316 square metres. The property is leased to the bank. The lease contains an initial non-cancellable period of ten years, starting from 2009, extendable by 5 years thereafter. The property was independently valued at R136,6 million in 2018. Commercial property comprises land at a cost of R3,5million (2018: R3,5 million) and buildings thereon at a cost of R69,1 million (2018: R69,1 million).	**72 582**	72 582		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	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 (2018: R72 million) and calculating a rate intrinsic in the lease of 14,3% (2018:14,3%). **			-	24 671
	76 237	76 237	-	24 671
Carrying amount at beginning of year	**76 237**	76 237	-	28 901
Additions	-	-	-	-
Depreciation	-	-	-	(4 230)
Carrying amount at end of year	**76 237**	76 237	-	24 671

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

** Based on the application of the modified retrospective approach of IFRS 16 the finance lease asset is recognised as a right of use asset and is no longer accounted for as land and buildings in the company.
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						
2019						
Cost at beginning of year	**76 237**	**6 512**	**63 370**	**20 846**	**3 568**	**170 533**
Accumulated depreciation at beginning of year	**-**	**(4 682)**	**(38 125)**	**(11 551)**	**-**	**(54 358)**
Net carrying amount at beginning of year	**76 237**	**1 830**	**25 245**	**9 295**	**3 568**	**116 175**
Additions	**-**	**2 074**	**10 815**	**93**	**256**	**13 238**
Transfers	**-**	**-**	**-**	**165**	**(165)**	**-**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**
Assets written-off	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation for the year	**-**	**(1 132)**	**(9 039)**	**(2 740)**	**-**	**(12 911)**
Net carrying amount at end of year	**76 237**	**2 772**	**27 021**	**6 813**	**3 659**	**116 502**
Cost at end of year	**76 237**	**7 251**	**74 174**	**21 104**	**3 659**	**182 425**
Accumulated depreciation at end of year	**-**	**(4 479)**	**(47 153)**	**(14 291)**	**-**	**(65 923)**
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)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

	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						
2019						
Cost at beginning of year	-	6 512	54 080	20 139	3 568	84 299
Accumulated depreciation at beginning of year	-	(4 682)	(36 661)	(11 012)	-	(52 355)
Net carrying amount at beginning of year	-	1 830	17 419	9 127	3 568	31 944
Additions	-	2 074	10 878	92	257	13 301
Transfers	-	-	-	165	(165)	-
Disposals	-	-	-	-	-	-
Assets written-off	-	-	-	-	-	-
Depreciation for the year	-	(1 132)	(7 203)	(2 622)	-	(10 957)
Net carrying amount at end of year	-	2 772	21 094	6 762	3 660	34 288
Cost at end of year	-	7 251	64 947	20 396	3 660	96 254
Accumulated depreciation at end of year	-	(4 479)	(43 853)	(13 634)	-	(61 966)
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)

All disposals and write-offs reflected in the note above are at net carrying amounts.

	GROUP	
	2019	2018
	R'000	**R'000**
4. INVESTMENT PROPERTIES		
Balance at beginning of year	**10 339**	10 502
Transfers	**-**	(163)
Balance at end of year	**10 339**	10 339

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 have accordingly concluded not to adjust its fair value from that of the independent valuation referred to above.

	GROUP AND COMPANY	
	2019	2018
	R'000	**R'000**
5. INTANGIBLE ASSETS		
Cost		
Computer software	**3 603**	5 004
Capitalised project costs	**44 871**	45 825
Capital work in progress	**43 001**	16 503
	91 475	67 332
Accumulated amortisation and impairment	**(35 109)**	(30 340)
Computer software	**(1 697)**	(2 695)
Capitalised project costs	**(33 412)**	(27 645)
	56 366	36 992

	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				
2019				
Cost at beginning of year	**5 004**	**45 825**	**16 503**	**67 332**
Accumulated amortisation at beginning of year	**(2 695)**	**(27 645)**	**-**	**(30 340)**
Net carrying amount at beginning of year	**2 309**	**18 180**	**16 503**	**36 992**
Additions	**761**	**17**	**26 498**	**27 276**
Transfers	**-**	**-**	**-**	**-**
Disposals	**(3)**	**(3)**	**-**	**(6)**
Amortisation for the year	**(1 161)**	**(6 735)**	**-**	**(7 896)**
Net carrying amount at end of year	**1 906**	**11 459**	**43 001**	**56 366**
Cost at end of year	**3 603**	**44 871**	**43 001**	**91 475**
Accumulated amortisation at end of year	**(1 697)**	**(33 412)**	**-**	**(35 109)**

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

	Computer software	Capitalised project costs	Capital work in progress	Total
2018				
Group and Company				
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)

6. INVESTMENT IN AND AMOUNT DUE BY SUBSIDIARY COMPANY

Albaraka Properties Proprietary Limited is 100% (2018: 100%) owned by Albaraka Bank Limited.

The issued share capital of Albaraka Properties Proprietary Limited comprises 1 000 shares of R1 each (2018: 1 000 shares of R1 each).

	COMPANY	
	2019	2018
	R'000	**R'000**
Shares at cost	**1**	1
Due by subsidiary	**20 199**	20 147
- Amounts owing by subsidiary	**80 190**	85 176
- Finance lease liability (note 33.3)	**(59 991)**	(65 029)
	20 200	20 148

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 R8,8 million (2018: R9,4 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
7. DEFERRED TAX ASSET/(LIABILITY)				
Balance at beginning of year	**(4 670)**	4 723	**23 685**	31 372
Tax recognised in profit or loss	**2 054**	(9721)	**3 288**	(8 015)
Tax recognised in other comprehensive income	**(332)**	84	**(332)**	84
Prior year overprovision recognised in profit or loss	**709**	244	**709**	244
Prior year effect of IFRS 16 deferred tax adjustment**	**(39)**	-	**(39)**	-
Balance at end of year	**(2 278)**	(4 670)	**27 311**	23 685

** Refer to the statement in changes in shareholders' equity and note 33 for further details

The deferred tax (liability)/asset comprises temporary differences arising on the following:

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
Finance lease	**-**	-	**11 074**	11 300
Financial assets	**(1 009)**	(851)	**(1 009)**	(851)
Impairment for doubtful advances	**(386)**	(625)	**(386)**	(625)
Leave pay provision	**3 177**	2 503	**3 177**	2 503
Portfolio impairment	**2 459**	2 753	**2 459**	2 753
Profit not paid to depositors	**5 857**	11 161	**5 857**	11 161
Other	**2 302**	2 620	**2 295**	2 607
Ijarah receivables	**9 184**	986	**9 184**	986
Prepaid expenses	**(749)**	(315)	**(741)**	(306)
Intangible assets, property and equipment	**(22 796)**	(21 720)	**(4 282)**	(4 661)
Fair value on investments	**(317)**	(196)	**(317)**	(196)
	(2 278)	(4 670)	**27 311**	23 685

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.

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
8. INVESTMENT SECURITIES				
Unit trust investments				
Fair value at beginning of year	**8 777**	9 592	**8 777**	9 592
Additions at cost	**191**	83	**191**	83
Fair value gain/(loss)	**566**	(898)	**566**	(898)
Fair value at end of year	**9 534**	8 777	**9 534**	8 777
Unlisted investments				
Kiliminjaro Investment Proprietary Limited, at fair value	**4 905**	4 227	**4 905**	4 227
Earthstone Investments Proprietary Limited at fair value	**10 167**	10 322	**10 167**	10 322
Ahmed Al Kadi Private Hospital Limited at fair value	**1 117**	1 099	**1 117**	1 099
	25 723	24 425	**25 723**	24 425

The bank's investment in unit trusts comprise 450 273 units (2018: 441 055 units) in the Old Mutual Albaraka Equity Fund. The carrying value of this investment is R9,5 million (2018: R8,8 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 that provides healthcare to the general public. The bank owns 52 000 shares (2018: 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 were classified as fair value through other comprehensive income. Kiliminjaro Investments Proprietary Limited, Earthstone Investments Proprietary Limited and Ahmed Al Kadi Private Hospital are measured at fair value. The bank currently has no intention to dispose of these assets.

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
9. ADVANCES AND OTHER RECEIVABLES				
9.1 Sectoral analysis				
Advances to customers				
Property (Musharaka and Murabaha)	**4 014 661**	3 753 855	**4 014 661**	3 753 855
Instalment sale	**702 852**	711 544	**702 852**	711 544
Trade	**585 137**	408 843	**585 137**	408 843
Other	**4 600**	752	**4 600**	752
Gross advances to customers	**5 307 250**	4 874 994	**5 307 250**	4 874 994
Provision for impairment of doubtful advances	**(17 014)**	(15 460)	**(17 014)**	(15 460)
Net advances to customers after provisions	**5 290 236**	4 859 534	**5 290 236**	4 859 534
Advances to banks				
Equity finance and Mudaraba deposits	**1 180 011**	1 089 135	**1 180 011**	1 089 135
Net advances	**6 470 247**	5 948 669	**6 470 247**	5 948 669
Other receivables	**51 447**	27 583	**51 248**	27 425
	6 521 694	5 976 252	**6 521 495**	5 976 094

Included under property are Musharaka advances amounting to R4,01 billion (2018: R3,74 billion).
Included in other receivables is R20,2 million (2018: Rnil) receivable for the agreed sale of foreign currency.

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
9.2 Maturity analysis				
Advances to customers				
Within 1 month	**293 449**	196 859	**293 449**	196 859
From 1 month to 3 months	**378 201**	280 059	**378 201**	280 059
From 3 months to 1 year	**670 257**	600 020	**670 257**	600 020
From 1 year to 5 years	**1 993 805**	1 970 130	**1 993 805**	1 970 130
More than 5 years	**1 971 538**	1 827 926	**1 971 538**	1 827 926
	5 307 250	4 874 994	**5 307 250**	4 874 994
Equity finance and mudaraba deposits				
Within 1 month	**50 079**	111 019	**50 079**	111 019
From 1 month to 3 months	**140 262**	461 760	**140 262**	461 760
From 3 months to 1 year	**557 982**	-	**557 982**	-
From 1 year to 5 years	**431 688**	516 356	**431 688**	516 356
	1 180 011	1 089 135	**1 180 011**	1 089 135

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	**R'000**	**R'000**	**R'000**
9.3 Expected Credit Loss				
Stage 1	**5 990**	5 688	**5 990**	5 688
Stage 2	**2 792**	4 145	**2 792**	4 145
Stage 3	**8 232**	5 627	**8 232**	5 627
	17 014	15 460	**17 014**	15 460
9.4 Credit loss expense				
Charge to impairment relating to Stage 3	**3 490**	929	**3 490**	929
Reversal of credit impaired profits relating to Stage 3	**(171)**	(452)	**(171)**	(452)
Release of impairment relating to Stage 1 and 2	**(1 048)**	(318)	**(1 048)**	(318)
Bad debts recovered	**(172)**	(260)	**(172)**	(260)
	2 099	(101)	**2 099**	(101)

There was an overall charge of Stage 3 impairments of R 3,5 million (2018: R0,9 million) for the year which was a result of impairments of R4,9 million (2018: R4,1 million) being charged and a R1,4 million (2018: R3,2 million) release, to profit for the year. An amount of R 0,05 million (2018: R1,8 million) is still subject to enforcement activity.

9.5 Gross carrying amount and ECL

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

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
2019				
Expected Credit Loss				
Opening balance	**5 688**	**4 144**	**5 628**	**15 460**
Impact on stage classification	**(796)**	**(2 164)**	**3 752**	**792**
Transfer out of Stage 1	**(69)**	**58**	**11**	**-**
Transfer out of Stage 2	**586**	**(2 135)**	**1 549**	**-**
Transfer out of Stage 3	**-**	**351**	**(351)**	**-**
Impact of stage transfers	**(1 313)**	**(438)**	**2 543**	**792**
Settlement/write-off of advances	**(3 371)**	**(949)**	**(1 417)**	**(5 737)**
New advances	**4 469**	**1 761**	**269**	**6 499**
Closing ECL	**5 990**	**2 792**	**8 232**	**17 014**

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
Exposure				
Gross carrying amount as at 1 January 2019	**4 647 093**	**1 237 437**	**79 599**	**5 964 129**
New financial assets	**1 712 508**	**328 098**	**1 077**	**2 041 683**
Transfers out of Stage 1	**(191 503)**	**169 714**	**21 789**	**-**
Transfers out of Stage 2	**410 122**	**(424 495)**	**14 373**	**-**
Transfers out of Stage 3	**333**	**4 141**	**(4 474)**	**-**
Settlements	**(1 205 246)**	**(281 571)**	**(30 846)**	**(1 517 663)**
Written-off	**(1)**	**(38)**	**(849)**	**(888)**
Gross carrying amount as at 31 December 2019	**5 373 306**	**1 033 286**	**80 669**	**6 487 261**
2018				
Expected Credit Loss				
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
Exposure				
Gross carrying amount as at 1 January 2018	3 413 692	1 558 052	110 769	5 082 513
New financial assets	2 038 254	280 680	9 901	2 328 835
Transfers out of Stage 1	(303 961)	282 386	21 575	-
Transfers out of Stage 2	558 407	(580 623)	22 216	-
Transfers out of Stage 3	2 372	26 664	(29 036)	-
Settlements	(1 061 092)	(329 712)	(53 465)	(1 444 269)
Written-off	(579)	(10)	(2 361)	(2 950)
Gross carrying amount as at 31 December 2018	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.

9.6 Product exposure by stage

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
Exposure 2019				
Legal charges	-	-	687	687
Ijarah motor vehicle	39 315	10 853	-	50 168
Musharaka commercial	1 592 640	455 789	31 212	2 079 641
Murabaha equipment	204 008	10 949	2 826	217 783
Murabaha property	2 478	1 405	-	3 883
Murabaha motor vehicle	327 330	105 563	2 008	434 901
Musharaka residential	1 461 311	436 996	36 743	1 935 050
Murabaha trade	566 213	11 731	7 193	585 137
Equity finance	1 180 011	-	-	1 180 011
Total exposure	5 373 306	1 033 286	80 669	6 487 261*
Group				
Exposure 2018				
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	5 964 129*

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

9.7 Internal credit risk grades

The bank currently uses rating agency scoring and past due information to assess if credit risk has increased significantly since initial recognition. The rating agency scores have been developed into risk bands that are used within the model to determine significant increase in credit risk. These bands and past due information however are not used to compute internal credit risk rating grades to report internally to key management personnel for internal credit risk management purposes. Although the bank does not solely use the past due status to assess whether the credit risk has increased significantly since initial recognition, it is a major variable in this assessment. The following table depicts the past due status of financial assets assessed for significant increase in credit risk since initial recognition.

GROUP AND COMPANY

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
Past due status				
2019				
<1 day	4 592 374	648 384	90	5 240 848
Transfers from Stage 1	-	87 971	-	87 971
1-30 days	780 932	199 556	127	980 615
Transfers from Stage 1	-	29 119	-	29 119
31-60 days	-	32 425	34	32 459
Transfers from Stage 1	-	23 199	-	23 199
61-90 days	-	8 222	-	8 222
Transfers from Stage 1	-	4 410	250	4 660
90+ days	-	-	47 090	47 090
Transfers from Stage 1	-	-	20 288	20 288
Transfers from Stage 2	-	-	12 790	12 790
	5 373 306	1 033 286	80 669	6 487 261

The stage transitions during the year were from Stage 1 to 2: R144,7 million; from Stage 1 to 3: R20,5 million and from Stage 2 to 3: R12,8 million.

	Stage 1	Stage 2	Stage 3	Total
2018				
<1 day	3 903 978	714 386	1 183	4 619 547
Transfers from Stage 1		164 411	1	164 412
1-30 days	743 115	248 402	205	991 722
Transfers from Stage 1		55 382		55 382
31-60 days		23 028	1	23 029
Transfers from Stage 1		10 310		10 310
61-90 days		15 215	1 200	16 415
Transfers from Stage 1		6 303		6 303
90+ days			35 239	35 239
Transfers from Stage 1			20 572	20 572
Transfers from Stage 2			21 198	21 198
	4 647 093	1 237 437	79 599	5 964 129

The Stage transitions during the year were from Stage 1 to 2: R236,4 million; from Stage 1 to 3: R20,6 million and from Stage 2 to 3: R21,2 million

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	**R'000**	**R'000**	**R'000**
10. SOUTH AFRICAN REVENUE SERVICE RECEIVABLE				
Income tax	**1 792**	-	**1 714**	-
	1 792	-	**1 714**	-
11. REGULATORY BALANCES				
Government and other stock	**260 355**	247 083	**260 355**	247 083
Balances with Central Bank	**138 528**	127 839	**138 528**	127 839
	398 883	374 922	**398 883**	374 922

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

	GROUP		COMPANY	
12. CASH AND CASH EQUIVALENTS				
Cash on hand	**26 631**	33 674	**22 584**	33 469
Balances with Central Bank	**58 752**	167 559	**58 752**	167 559
Placements with other banks	**132 979**	93 879	**132 979**	93 879
	218 362	295 112	**214 315**	294 907
The following banking facilities are available to the group:				
Settlement facilities	**71 474**	73 222	**71 474**	73 222
	71 474	73 222	**71 474**	73 222
13. SHARE CAPITAL AND SHARE PREMIUM				
Authorised share capital				
100 000 000 (2018: 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 (2018: 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

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	**R'000**	**R'000**	**R'000**
14. WELFARE AND CHARITABLE FUNDS				
Gross income from non-Islamic activities during the year	**22 645**	22 638	**22 645**	22 638
Normal tax thereon	**(2 715)**	(4 301)	**(2 715)**	(4 301)
Net income from non-Islamic activities during the year	**19 930**	18 337	**19 930**	18 337
Donations and advances	**(14 154)**	(13 287)	**(14 154)**	(13 287)
Balance at beginning of year	**20 031**	14 981	**20 031**	14 981
Balance at end of year	**25 807**	20 031	**25 807**	20 031
15. ACCOUNTS PAYABLE				
Sundry creditors	**11 796**	26 934	**11 771**	26 886
Accruals	**36 809**	13 076	**32 300**	12 249
	48 605	40 010	**44 071**	39 135

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 accruals is an amount of R19,5 million (2018: Rnil) payable for foreign currency purchased.

	GROUP		COMPANY	
16. SOUTH AFRICAN REVENUE SERVICE PAYABLE				
Income tax	**-**	1 032	**-**	1 086
Value Added Taxation	**383**	446	**178**	264
	383	1 478	**178**	1 350

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

	GROUP		COMPANY	
17. PROVISION FOR LEAVE PAY				
Balance at beginning of year	**8 940**	8 517	**8 940**	8 517
Accrued during the year	**9 068**	7 447	**9 068**	7 447
Utilised during the year	**(6 660)**	(7 024)	**(6 660)**	(7 024)
Balance at end of year	**11 348**	8 940	**11 348**	8 940

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.
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 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
19. SUKUK HOLDERS/ALBARAKA SUKUK TRUST				
Sukuk capital	**307 700**	200 000	**307 700**	200 000
Sukuk profit payable	**1 583**	1 667	**1 627**	1 687
	309 283	201 667	**309 327**	201 687

The Sukuk investment product qualifies as a tier 2 capital instrument in terms of Basel III with a 10-year maturing period. 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 R1,6 million (2018: R1,7million) profit payable balance represents the December profit accrual which was paid in January 2019 (2018: January 2018). The Sukuk has been issued in tranches with the latest tranche issued in December 2019 of R107,7 million. The bank currently has approval from the Prudential Authority to issue a further R292 million of Sukuk by 31 December 2021.

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.

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
21. NET NON-ISLAMIC INCOME				
Non-Islamic income	**22 645**	22 638	**22 645**	22 638
Amount transferred to welfare and charitable funds (note 14)	**(22 645)**	(22 638)	**(22 645)**	(22 638)
	-	-	**-**	-
22. FEE AND COMMISSION INCOME				
Service fees	**21 017**	19 719	**21 017**	19 719
Commission received on sale of unit trusts	**8 214**	8 695	**8 214**	8 695
Profit from foreign currency trading	**17 021**	17 508	**17 021**	17 508
Management fee from subsidiary	**-**	-	**255**	243
	46 252	45 922	**46 507**	46 165
23. OTHER OPERATING INCOME				
Property rental income	**-**	-	**235**	240
Net parking income from investment property	**875**	933	**-**	-
Dividend income	**1 619**	1 436	**8 619**	8 436
Surplus on disposal of property and equipment	**592**	156	**592**	156
Other	**828**	1 817	**828**	1 817
	3 914	4 342	**10 274**	10 649

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
24. OPERATING EXPENDITURE				
Operating expenditure includes:				
Auditor's remuneration				
Audit fees				
- current year	**3 333**	3 153	**3 306**	3 090
- prior year under-provision	**247**	521	**247**	519
Fees for other services				
- Other	**394**	927	**394**	909
	3 974	4 601	**3 947**	4 518
Consultancy fees	**9 947**	6 546	**9 937**	6 134
Depreciation of property and equipment	**12 911**	12 225	**10 957**	14 946
Amortisation of intangible assets	**7 896**	8 974	**7 896**	8 974
Depreciation of right of use assets	**5 059**	-	**9 289**	-
Operating lease charges	**-**	4 706	**1 359**	6 001
Research costs	**184**	322	**184**	322
Staff costs	**114 093**	112 473	**114 093**	112 473
Directors' emoluments	**10 738**	11 110	**10 738**	11 110
Executive services	**7 353**	8 158	**7 353**	8 158
Non-executive directors' fees	**3 385**	2 952	**3 385**	2 952

	2019			2018		
	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	**2691**	**649**	**3 340**	2 521	711	3 232
MJD Courtiade - Chief risk executive *	**-**	**-**	**-**	650	450	1 100
A Ameed - Financial director	**1 644**	**200**	**1 844**	1 540	220	1 760
M Kaka - Chief operating officer	**1 925**	**244**	**2 169**	1 801	265	2 066
	6 260	**1 093**	**7 353**	6 512	1 646	8 158

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	
	2019	2018
	R'000	**R'000**
Non-executive directors' fees		
AA Yousif	**440**	462
SA Randeree	**404**	412
J Cane	**345**	227
MJD Courtiade	**333**	223
ZH Fakey	**299**	-
F Kassim	**299**	286
NJ Kunene	**-**	150
A Lambat	**409**	376
MS Paruk	**439**	417
YGH Suleman	**417**	399
	3 385	2 952

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	**R'000**	**R'000**	**R'000**
25. TAXATION				
Normal tax - current year	**33 839**	16 341	**31 751**	14 493
- prior year	**(591)**	219	**(591)**	219
Attributable to income from non-Islamic activities (refer to accounting policy 14 and note 21)				
- current year	**(2 730)**	(4 326)	**(2 730)**	(4 326)
- prior year	**15**	24	**15**	24
Deferred tax - current year	**(2 054)**	9 721	**(3 288)**	8 015
- prior year	**(709)**	(244)	**(709)**	(244)
Taxation attributable to Islamic activities	**27 770**	21 735	**24 448**	18 181

	2019	2018	**2019**	2018
	%	**%**	**%**	**%**
Effective tax rate	**27,2**	25,0	**25,0**	22,3
Adjustable items:				
Non-taxable income	**0,4**	0,3	**2,5**	2,7
Non-deductible expenditure	**(0,8)**	2,7	**(0,8)**	3,0
Current tax adjustment - prior year	**0,6**	(0,3)	**0,6**	(0,3)
Deferred tax adjustment - prior year	**0,6**	0,3	**0,6**	0,3
South African Companies tax rate	**28,0**	28,0	**28,0**	28,0

	GROUP		COMPANY	
	2019	2018	**2019**	2018
	R'000	**R'000**	**R'000**	**R'000**

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.

26. FAIR VALUE GAIN/(LOSS)

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
Fair value gain/(loss) on FVOCI	**541**	(477)	**541**	(477)
Deferred tax on FVOCI	**(145)**	109	**(145)**	109
Fair value gain/(adjustment) on forward exchange contract	**668**	(300)	**668**	(300)
Deferred tax on forward exchange contract	**(187)**	84	**(187)**	84
	877	(584)	**877**	(584)

27. EARNINGS PER SHARE

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
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 (2018: 32 240 260) ordinary shares in issue during the year (cents)	**230,7**	202,5		
Headline earnings per share are calculated on headline earnings and a weighted number of 32 240 260 (2018: 32 240 260) ordinary shares in issue during the year (cents)	**228,8**	202,2		
Headline earnings per share are derived from:				
Profit for the year	**74 370**	65 292		
Profit arising on disposal of property and equipment	**(589)**	(100)		
	73 781	65 192		

28. DIVIDENDS

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
A dividend of 55 cents per share (2018: 55 cents) was paid on 27 July 2019 to shareholders registered on the shareholders register of the bank at close of business on 06 July 2019.	**17 732**	17 732	**17 732**	17 732

29. STATEMENT OF CASH FLOWS

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
29.1 Cash generated from operations				
Profit before taxation	**102 140**	87 027	**97 642**	81 465
Adjustment for non-cash items and investment income:				
Depreciation of property and equipment	**12 911**	12 225	**10 957**	14 946
Dividend income	**(1 619)**	(1 436)	**(8 619)**	(8 436)
Unrealised forex losses/(gains)	**3 064**	(2 130)	**3 064**	(2 130)
Amortisation of intangible assets	**7 896**	8 974	**7 896**	8 974
Depreciation on right of use assets	**5 059**	-	**9 289**	-
Deemed interest on leases	**1 366**	-	**1 366**	-
Net profit arising on disposal of property and equipment	**(589)**	(101)	**(589)**	(101)
Straight lining of operating leases	**-**	222	**-**	222
Provision for leave pay	**2 408**	423	**2 408**	423
Credit loss expense	**2 099**	(101)	**2 099**	(101)
Intersystem write-off	**-**	901	**-**	901
Fair value loss/(gain) on financial instruments	**(566)**	898	**(566)**	898
	134 169	106 902	**124 947**	97 062
29.2 Changes in working capital				
Increase in deposits from customers	**336 000**	766 270	**336 000**	766 270
Increase in Sukuk investment	**107 616**	155 788	**107 640**	155 798
Increase/decrease in accounts payable	**7 612**	(28 966)	**3 930**	(30 043)
Increase in welfare and charitable funds	**5 776**	9 352	**5 776**	9 352
Increase in advances and other receivables	**(545 442)**	(865 632)	**(545 401)**	(865 625)
Increase in capital reserves	**838**	2 679	**838**	2 679
Increase in regulatory balances	**(23 961)**	(37 272)	**(23 961)**	(37 272)
	(111 561)	2 219	**(115 178)**	1 159
29.3 Taxation paid				
Amount (payable)/receivable at beginning of year	**(1 032)**	1 215	**(1 086)**	1 158
Amount charged to profit for the year	**(30 533)**	(12 258)	**(28 445)**	(10 410)
Amount charged to welfare and charitable funds	**(2 715)**	(4 302)	**(2 715)**	(4 302)
Amount (receivable)/payable at end of year	**(1 792)**	1 032	**(1 714)**	1 086
	(36 072)	(14 313)	**(33 960)**	(12 468)
29.4 Dividends paid				
Amount outstanding at beginning of year	**(1 224)**	(1 181)	**(1 224)**	(1 181)
Dividends declared and paid	**(17 732)**	(17 732)	**(17 732)**	(17 732)
Amount outstanding at end of year	**1 366**	1 224	**1 366**	1 224
	(17 590)	(17 689)	**(17 590)**	(17 689)

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
29.5 Purchase of property and equipment				
Vehicles	(2 074)	(564)	(2 074)	(564)
Equipment and computers	(10 815)	(9 220)	(10 878)	(4 865)
Leasehold improvements	(93)	(588)	(92)	(589)
Work in progress	(256)	(4 301)	(257)	(4 301)
	(13 238)	(14 673)	(13 301)	(10 319)
29.6 Purchase of intangible assets				
Computer software	(761)	(1 287)	(761)	(1 287)
Capitalised project costs	(17)	(870)	(17)	(870)
Work in progress	(26 498)	(14 480)	(26 498)	(14 480)
	(27 276)	(16 637)	(27 276)	(16 637)
30. LETTERS OF CREDIT, GUARANTEES AND CONFIRMATIONS				
Guarantees and confirmations	388 647	267 229	388 647	267 229
Letters of credit	2 334	1 579	2 334	1 579
	390 981	268 808	390 981	268 808

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.

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
31. CAPITAL COMMITMENTS				
Authorised and contracted for				
- Property and equipment	280	197	280	197
	280	197	280	197

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

32. FINANCIAL INSTRUMENTS

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
32.1 Credit risk - maximum exposure to credit risk				
Advances to customers (note 9.1)	5 307 250	4 874 994	5 307 250	4 874 994
Advances and balances with banks	1 312 990	1 183 014	1 312 990	1 183 014
Advances and balances with Central Bank	457 635	542 480	457 635	542 480
Letters of credit, guarantees and confirmations	390 981	268 808	390 981	268 808
	7 468 856	6 869 296	7 468 856	6 869 296

	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
32.2 Currency risk				
The group's exposure to currency risk was as follows:				
Cash and cash equivalents				
- EUR	1 644	2 071	1 644	2 071
- GBP	1 215	966	1 215	966
- SAR	425	379	425	379
- USD	23 597	32 491	23 597	32 491
- Others	252	783	252	783
	27 133	36 690	27 133	36 690

Based on the bank's year end foreign currency holdings a 1% fluctuation in the exchange rate will result in a R271 000 (2018: R367 000) 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 R'000	Within 1 month R'000	1 to 3 months R'000	3 months to 1 year R'000	1 to 5 Years R'000	More than 5 years R'000
Group						
2019						
Assets						
Advances and other receivables	6 521 694	351 162	534 399	1 251 814	2 419 103	1 965 216
Investment securities	25 723	-	-	-	-	25 723
Cash and cash equivalents and regulatory balances	617 245	307 255	21 779	149 683	-	1 38 528
	7 164 662	658 417	556 178	1 401 497	2 419 103	2 129 467
Group						
2019						
Liabilities						
Deposits from customers	6 180 299	2 360 737	1 142 439	2 652 831	3 374	20 917
Sukuk	309 283	-	-	-	309 283	-
Accounts payable	48 605	43 186	3 613	1 806	-	-
Letters of credit, guarantees and confirmations	390 981	63 556	162 125	78 881	39 335	47 085
	6 929 168	2 467 480	1 308 176	2 733 518	351 992	68 002
Net liquidity gap	235 494	(1 809 063)	(751 998)	(1 332 021)	2 067 111	2 061 465

	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
Group						
2018						
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

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

	COMPANY	
	2019	2018
	R'000	**R'000**

32.4. Intrinsic rate risk

Loans and borrowings subject to intrinsic rate risk

	Intrinsic rate	Maturity	2019	2018
	14,3%	2024		
Current portion – less than 12 months			**7 003**	12 980
Non-current portion – greater than 12 months			**52 988**	52 049
Total obligations under finance leases (note 33.2)			**59 991**	65 029

Intrinsic rate risk is limited to the 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 subsidiary.

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 below 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

	Fair value through other comprehensive income	Amortised cost	Fair value through profit and loss	Carrying amount
	R'000	R'000	R'000	R'000
Group				
2019				
Assets				
Advances	-	6 470 247	-	6 470 247
Forward exchange contract	-	-	20 148	20 148
Investment securities	16 189	-	9 534	25 723
Cash and cash equivalents	-	218 362	-	218 362
Regulatory balances	-	398 883	-	398 883
	16 189	7 087 492	29 682	7 133 363
Liabilities				
Deposits from customers	-	6 180 299	-	6 180 299
Sukuk	-	309 283	-	309 283
Accounts payable	-	29 125	-	29 125
Forward exchange contract	-	-	19 480	19 480
	-	6 518 707	19 480	6 538 187

	Fair value through other comprehensive income	Amortised cost	Fair value through profit and loss	Carrying amount
	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

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 Investment 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				
2019				
Financial assets				
- Amortised cost	-	7 087 492	-	7 087 492
- Fair value through other comprehensive income	-	16 189	-	16 189
- Fair value through profit and loss	29 682	-	-	29 682
	29 682	7 103 681	-	7 133 363
Financial liabilities				
- Amortised cost	-	6 518 707	-	6 518 707
- Fair value through profit and loss	19 480	-	-	19 480
	19 480	6 518 707	-	6 538 187
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

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.

33. LEASES

In adopting IFRS 16 the group has applied the modified retrospective approach. Accordingly, note 33.1 and note 33.2 are for disclosure of the comparative figures for the 2018 financial year.

	GROUP	COMPANY
	2019	2018
	R'000	R'000
33.1 Operating leases		
Leases as lessee		
Non-cancellable operating lease rentals payable are as follows:		
Less than one year	5 306	6 665
Between one and five years	13 974	13 974
	19 280	20 639

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.

	COMPANY	
	2018	
	Minimum payments	Present value of payments
	R'000	R'000
33.2 Finance leases		
Leases as lessee		
Less than one year	13 851	12 980
Between one and five years	67 409	44 243
More than five years	16 737	7 806
Total minimum lease payments	97 997	65 029
Less amounts representing finance charges	(32 968)	-
Present value of minimum lease payments - (note 6)	65 029	65 029

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% after considering the unguaranteed residual value of R72 million which will be realised at the end of the lease.

33.3 IFRS 16 transition note

In the context of the transition to IFRS16, the bank had right of use assets of R16,0 million and the Group had right of use assets of R79,5 million, and the bank had lease liabilities of R16,2 million and the Group had lease liabilities of R81,2 million recognised as at 1 January 2019. The bank transitioned to IFRS 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted. As part of the initial application of IFRS 16, the bank chooses to apply the relief option, which allows it to adjust the right of use asset by the amount of any provision for leases recognised in the statement of financial position immediately before the date of initial application. In addition, the bank has decided to apply the exemption afforded in the standard to leases whose term will end within 12 months of the date of initial application. In such cases, the leases will be accounted for as short-term leases and the lease payments associated with them will be recognised as an expense from short-term leases. The deferred tax on the straight lining lease provision has been taken to retained earnings as an opening adjustment. The following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based on the operating lease obligations as at 31 December 2018:

	GROUP	COMPANY
	R'000	R'000
Reconciliation		
Operating lease obligations at 31 December 2018	19 280	20 639
Discounting	(3 111)	(3 111)
Gross lease liabilities	16 169	17 528
Relief option for short-term leases		(1 359)
Lease liabilities as at 1 January 2019	16 169	16 169
Previously classified finance lease liability as at 1 January 2019	-	65 029
Total lease liabilities as at 1 January 2019	16 169	81 198

The weighted average incremental borrowing rate applied to lease liabilities at the date of initial application was 9,25% as at 1 January 2019. The intrinsic rate applied to the previously classified finance lease remains unchanged at 14,3% after considering the unguaranteed residual value of R72 million which will be realised at the end of the lease.

Changes in reporting standard

Since 1 January 2019, Al Baraka Bank is applying IFRS 16 - Leases, as adopted by the IASB for the first time. The effects of the initial application of these provisions on the financial statements of Al Baraka Bank are presented below:

In January 2016, the IASB published the financial reporting standard IFRS 16 "Leases". The standard replaces the existing guidance on leases, including IAS 17 "Leases", IFRIC 4 " Determining whether an arrangement contains a lease," SIC-15 "Operating leases - Incentives" and SIC-27 "Evaluating the substance of transactions in the legal form of a lease." IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognised in the lessee's statement of financial position, unless the term is 12 months or less or the lease is for a low-value asset. Thus, the classification required under IAS 17 into operating or finance leases is eliminated for lessees. For each lease, the lessee recognises a liability for lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalised, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortised over the useful life.

The bank has decided to apply the exemption afforded in the standard not to apply the new recognition criteria to short-term leases. The lease payments under these contracts are generally recognised on a straight line basis over the lease term as other operating expenses. In all other cases in which the bank acts as the lessee, the present value of future lease payments is recognised as a financial liability. Lease payments are split into principal and interest portions, using the effective interest method. The right of use asset is depreciated on a straight line basis over the lease term, or if it is shorter, over the useful life of the leased asset.

	GROUP		
	Office building	ATM sites	Total
	R'000	R'000	R'000
RIGHT OF USE ASSETS			
2019			
Cost at beginning of year	15 705	325	16 030
Accumulated depreciation at beginning of year	-	-	-
Net carrying amount at beginning of year	15 705	325	16 030
Additions	2 727	-	2 727
Depreciation for the year	(4 938)	(121)	(5 059)
Net carrying amount at end of year	13 494	204	13 698
Cost at end of year	18 432	325	18 757
Accumulated depreciation at end of year	(4 938)	(121)	(5 059)

	COMPANY		
	Office building	ATM sites	Total
	R'000	R'000	R'000
2019			
Cost at beginning of year	79 149	325	79 474
Accumulated depreciation at beginning of year	(38 773)	-	(38 773)
Net carrying amount at beginning of year	40 376	325	40 701
Additions	2 727	-	2 727
Depreciation for the year	(9 168)	(121)	(9 289)
Net carrying amount at end of year	33 935	204	34 139
Cost at end of year	81 876	325	82 201
Accumulated depreciation at end of year	(47 941)	(121)	(48 062)

	Group & Company 2019	Company Per Note 6 * 2019	Company 2019
	R'000	R'000	R'000
LEASE LIABILITIES			
Long-term portion of lease liabilities	10 079	52 988	63 067
Office building	9 977	52 988	62 965
ATM sites	102	-	102
Short-term portion of lease liabilities	4 679	7 003	11 682
Office building	4 549	7 003	11 552
ATM sites	130	-	130
Carrying amount of lease liabilities	14 758	59 991	74 749
As at 1 January 2019	16 169	65 029	81 198
Additions	2 727	-	2 727
Deemed interest	1 366	8 814	10 180
Payments	(5 504)	(13 852)	(19 356)
As at 31 December 2019	14 758	59 991	74 749

* The lease liability as per the previously recognised finance lease at the company level between the bank and Albaraka Properties Proprietary Limited is offset in note 6 against the inter-company loan account between the bank and the property company. Accordingly the total lease liability at the company level is R74,7 million split between the investment in and amount due by subsidiary company: R60,0 million and lease liability: R14,7 million lines on the statement of financial position

	GROUP		
	Office building	ATM sites	Total
Maturity analysis - contractual undiscounted cash flow of lease liability	R'000	R'000	R'000
Less than one year	5 662	145	5 807
One to five years	11 303	107	11 410
	16 965	252	17 217

	COMPANY		
	Office building	ATM sites	Total
	R'000	R'000	R'000
Less than one year	**20 621**	**145**	**20 766**
One to five years	**80 490**	**107**	**80 597**
	101 111	**252**	**101 363**

	COMPANY
	2019
	R'000
SHORT-TERM LEASES	
Leases less than one year	**1 359**
	1 359

These leases are for periods less than one year and have been treated as short-term leases as per the standard. They represent two leases for the Cape Town corporate office and Athlone retail branch. As these leases are inter-company leases they eliminate on consolidation and are therefore only applicable at the company level.

The following are the amounts recognised in profit or loss:

	GROUP	COMPANY
	2019	2019
	R'000	R'000
Depreciation expense of right of use assets	5 059	9 289
Interest expense on lease liabilities	1 364	10 180
Expense relating to short-term leases	-	1 359
Total amount recognised in profit or loss	6 423	20 825

The bank and the group had total cash outflows for leases of R4,1 million and R6,4 million respectively. The bank had no non-cash additions to right-of-use assets and lease liabilities. There are no future cash outflows relating to leases that have not yet commenced.

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 R10,9 million (2018: R10,6 million). Executives' portion of the contribution amounted to R640 267 for the year (2018: R650 676).

35. RELATED PARTY INFORMATION

The holding company of Albaraka Bank Limited at 31 December 2019 is Al Baraka Banking Group B.S.C. which is a company registered in the Kingdom of Bahrain and which holds 64,5% (2018: 64,5%) of the company's ordinary shares.

Dominion (South Africa) Proprietary Limited previously named DCD Holdings (SA) Proprietary Limited, together with DCD London & Mutual plc, a company incorporated in England and Wales, jointly hold 12,6% (2018: 12,6%) of the company's ordinary shares.

Timewest Investments Proprietary Limited, a company incorporated in South Africa, holds 7,7% (2018: 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.

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 R13 851 441 (2018: R12 825 409) 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 (2018: R7 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	
	2019	2018
	R'000	R'000
Property finance - Musharaka and Murabaha		
Balance outstanding at beginning of year	**14 737**	17 965
Advances granted during the year	**2 380**	-
Repayments during the year	**(5 032)**	(4 820)
Profit earned	**1 484**	1 592
	13 569	14 737
Profit mark-up range for the year	**5,0% - 10,75%**	5,0% - 10,75%

The profit mark-up of 5% is in respect of advances to executive directors at subsidised rates which, at year end, amounted to R1 631 184 (2018: R2 346 646).

	COMPANY	
	2019	2018
	R'000	R'000
Instalment sale		
Balance outstanding at beginning of year	1 334	2 243
Advances granted during the year	685	-
Repayments during the year	(817)	(1 079)
Profit earned	331	169
	1 533	1 334
Profit mark-up range for the year	6,0% - 12,94%	6,0% - 12,94%
Trade finance		
Balance outstanding at beginning of year	1 388	1 864
Advances granted during the year	3 436	3 120
Repayments during the year	(4 010)	(3 828)
Profit earned	278	232
	1 092	1 388
Profit mark-up range for the year	9,50% - 9,75%	9,50%

Iqraa Trust

During the year, the bank donated an amount of R10 620 922 (2018: R10 779 104) to the trust.

At 31 December 2019 funds deposited by the trust with the bank amounted to R19 844 091 (2018: R24 443 450).

	2019	2018
Albaraka Sukuk Trust		
Sukuk capital	307 700	200 000
Total exposure to related parties	323 894	217 459

Staff

Staff advances are conducted at subsidised profit rates.

	2019	2018
The total staff advances outstanding at the end of the period amounted to	58 438	61 247

36. COMPARATIVE INFORMATION

The 2018 financial comparative has been adjusted on the face of the statement of profit and loss and other comprehensive income to separate the income earned from equity finance and income earned from mudaraba deposits. This was brought about based on the differences in the underlying structure of the contracts with the counterparties. The total value previously reported under income earned from equity finance in the 2018 financial statements as R58,7 million, has now been separately reported as R45,9 million income earned from equity finance and R12,8 million income earned from Mudaraba deposits.

37. STANDARDS AND AMENDMENTS NOT YET EFFECTIVE

At the date of authorisation of the annual financial statements for the year ended 31 December 2019, the bank has considered the list of accounting standards, interpretations and amendments that 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 7 and IFRS 9 Financial Instruments: Disclosures (effective 1 January 2020)

Interest Rate Benchmark Reform: The amendments to IFRS 9, IAS 39 and IFRS 7 amend requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest rate benchmarks such as interbank offered rates (IBORs) on hedge accounting.

- The amendments modify some specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by the IBOR reform.
- In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective 1 January 2020)

Definition of Material: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

AAOIFI STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	GROUP		COMPANY	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Assets				
Cash and cash equivalents	617 245	670 034	613 198	669 829
Sales receivables	2 414 873	2 198 822	2 414 873	2 198 822
Musharaka financing	4 005 231	3 738 841	4 005 231	3 738 841
Ijarah financing	48 890	15 422	48 890	15 422
Investment securities	25 723	24 425	25 723	24 425
Investment in subsidiary company	-	-	20 200	20 148
Total investments	7 111 962	6 647 544	7 128 115	6 667 487
Other assets	53 239	27 583	100 714	51 110
Property and equipment	116 502	116 175	34 288	56 615
Investment properties	10 339	10 339	-	-
Intangible assets	56 366	36 992	56 366	36 992
Total assets	7 348 408	6 838 633	7 319 483	6 812 204
Liabilities, unrestricted investment accounts and owners' equity				
Liabilities				
Customer current accounts and other	774 549	714 835	774 549	714 835
Payables	63 795	55 098	56 778	49 425
Other liabilities	25 807	20 031	25 807	20 031
Total liabilities	864 151	789 964	857 134	784 291
Equity of unrestricted investment account holders	5 384 833	5 089 604	5 384 833	5 089 604
Sukuk	309 283	201 667	309 327	201 687
Profits distributable to depositors	20 917	39 860	20 917	39 860
Total liabilities and unrestricted investment accounts	6 579 184	6 121 095	6 572 211	6 115 442
Owners' equity	769 224	717 538	747 272	696 762
Share capital	322 403	322 403	322 403	322 403
Share premium	82 196	82 196	82 196	82 196
Other reserve	1 753	876	1 753	876
Retained income	362 872	312 063	340 920	291 287
Total liabilities, unrestricted investment accounts and owners' equity	7 348 408	6 838 633	7 319 483	6 812 204

AAOIFI STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	GROUP		COMPANY	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Income from sales receivables	205 373	163 933	208 388	163 933
Income from Musharaka financing	384 409	373 890	384 409	373 890
Income from Ijarah financing	10 052	4 824	10 052	4 824
Return on unrestricted investment accounts before the bank's share as mudarib	599 834	542 647	602 849	542 647
Less: bank's share as mudarib	(307 578)	(276 625)	(307 708)	(276 410)
Return on unrestricted accounts	292 256	266 022	295 141	266 237
Bank's share in income from investment (as a mudarib and as a fund owner)	307 578	276 625	307 708	276 410
Bank's income from its own investments	1 619	1 436	8 619	8 436
Revenue from banking services	21 017	19 719	21 017	19 719
Other revenue	27 530	29 109	27 145	28 659
Total bank revenue	357 744	326 889	364 489	333 224
Administrative and general expenditure	(227 877)	(213 839)	(241 074)	(223 015)
Depreciation of property and equipment	(12 911)	(12 225)	(10 957)	(14 946)
Amortisation of intangible assets	(7 896)	(8 974)	(7 896)	(8 974)
Depreciation of Ijarah	(8 234)	(408)	(8 234)	(408)
Profit before taxation	100 826	91 443	96 328	85 881
Taxation	(27 770)	(21 735)	(24 448)	(18 181)
Profit for the period	73 056	69 708	71 880	67 700

AL BARAKA BANKING GROUP
GLOBAL NETWORK

AL BARAKA BANKING GROUP B.S.C.
GROUP HEADQUARTERS:
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Kingdom of Bahrain

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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 on our website.
Should you wish to access individual subsidiary contact information, please visit:
www.albaraka.co.za and select 'Group Website'