alBaraka

INTEGRATED
ANNUAL
REPORT

2020

Unity in the face of Adversity

Your Partner Bank

AL BARAKA BANK

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

We are pleased to welcome you, our valued stakeholder, to our 2020 integrated annual report, which report affords you insights to the bank's 01 January to 31 December 2020 financial year and which provides an easily understood and concise oversight of our bank's past performance, achievements and future prospects.

This document contains a number 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, including human resources, information technology, corporate governance, sustainability, compliance and Shariah principles.

Al Baraka Bank is a commercial banking institution and is South Africa's only fully-fledged Islamic bank.

In light of this, our primary 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 lead objective in this regard is to adequately meet the financial needs of this country's communities by conducting our every business activity in a wholly-ethical manner and in accordance with our beliefs.

In so doing, we practice the highest professional standards and share the mutual benefits with our customers, members of staff and shareholders, all of whom participate in our business success.

"AL BARAKA BANK IS A COMMERCIAL BANKING INSTITUTION AND IS SOUTH AFRICA'S ONLY FULLY-FLEDGED ISLAMIC BANK."

In the preparation of this integrated annual report, we remain mindful of Al Baraka Bank's pre-determined reporting requirements, as well as those prescribed by South Africa's financial regulatory bodies. We would additionally stress that materiality is ascertained by our board of directors.

We remain fully aware of our bank's overriding guiding principles, as described in the International Financial Reporting Standards, 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 apply an integrated thinking philosophy to our overall business and said philosophy is mirrored in our adopted strategic direction, in the pursuit of business 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.

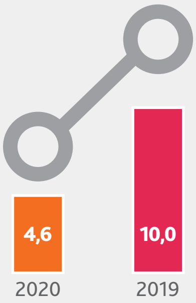
……………………………..
Adnan Ahmed Yousif
Chairman

12 March 2021

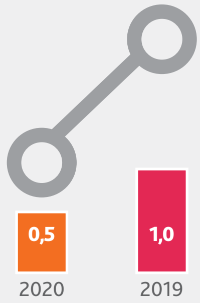
……………………………..
Shabir Chohan
Chief executive

KEY PERFORMANCE INDICATORS

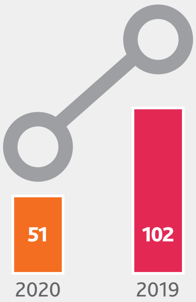
ROE
IN PERCENTAGE



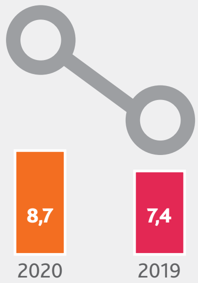
ROA
IN PERCENTAGE



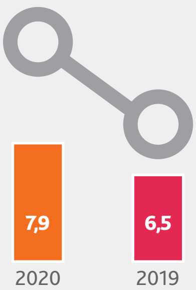
NET PROFIT BEFORE TAXATION
IN MILLIONS



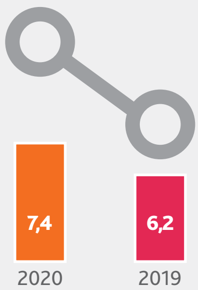
ASSETS
IN BILLIONS



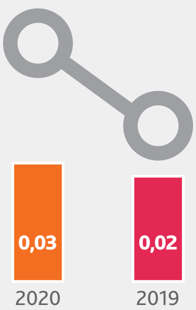
ADVANCES
IN BILLIONS



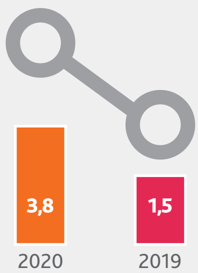
DEPOSITS
IN BILLIONS



BAD DEBT
IN PERCENTAGE



NON-PERFORMING
IN PERCENTAGE



BUSINESS PROFILE

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

ABG is licenced as an Islamic wholesale bank by the Central Bank of Bahrain and is listed on the Bahrain Bourse and NasdaqDubai. As a leading international Islamic banking group, it provides its unique services in countries with a collective population totalling some 1 billion.

The group has a wide geographical presence in the form of subsidiary banking units and representative offices in 17 countries which, in turn, provide their services through more than 700 branches. ABG has operations in Jordan, Egypt, Tunis, Bahrain, Sudan, Turkey, South Africa, Algeria, Lebanon, Saudi Arabia, Syria, Pakistan, Morocco and Germany. In addition, there are two branches in Iraq and two representative offices in Indonesia and Libya.

ABG and its units offer retail, corporate, treasury and investment banking services, strictly in accordance with the principles of Islamic Shariah. The authorised capital of ABG is US$2,5 billion.

S&P Global Ratings has updated the long-term rating on ABG to 'BB-', with a 'Stable' outlook, while affirming the 'B' short-term rating of the bank. ABG has also been rated A3 (short-term) by the Islamic International Rating Agency (IIRA). IIRA has also rated ABG on the national scale at A+ (bh)/A2 (bh), with a fiduciary score of 81-85, the highest level amongst Islamic Financial Institutions in the region.

AL BARAKA BANK - SOUTH AFRICA
Al Baraka Bank was established in South Africa in 1989.

The bank is equipped to offer communities across the country 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.

The bank ensures close personal contact with clients and strives to live the moral value of 'partnership,' while continuously endeavouring to create, develop and sustain long-term relationships with clients.

This enables the bank to encourage close and meaningful dealings and exchanges to the benefit of both clients and the business.

Al Baraka Bank's head office is situated in Durban and the financial institution enjoys a national business footprint, including 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 positioned to offer clients a comprehensive bouquet of financial products and services.

As at 31 December 2020, 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.

The bank also has in place both an internal Shariah Department and an independent Shariah Supervisory Board.

"THE BANK ENSURES CLOSE PERSONAL CONTACT WITH CLIENTS AND STRIVES TO LIVE THE MORAL VALUE OF 'PARTNERSHIP,' WHILE CONTINUOUSLY ENDEAVOURING TO CREATE, DEVELOP AND SUSTAIN LONG-TERM RELATIONSHIPS WITH CLIENTS."

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 (AAOIFI).

The bank's financial products are accordingly reviewed and audited on a regular basis, giving effect to the ongoing maintenance of and adherence to Shariah.

Al Baraka Banking Group through its shareholding has ensured that the local business unit 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.

The bank continues to enjoy satisfactory business growth, within the context of the COVID-19 pandemic, and plays a crucial role in contributing towards addressing and overcoming some of this country's most pressing socio-economic challenges; the result of its ongoing dedication to a series of identified Corporate Social Investment initiatives; initiatives which are afforded still greater emphasis through the alignment of our Corporate Strategy and Social Investment responsibilities with the United Nations 2030 Agenda for Sustainable Development.

The most responsible approach to making a telling and sustainable social impact was seen to lie in linking our efforts with Al Baraka Banking Group's existing alignment with the laudable United Nations Development Programme initiative.

In so doing, the bank has identified seven of the 17 Sustainable Development Goals through which to make a real impact in South Africa.

TEN-YEAR REVIEW

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statement of Financial Position (Rm)										
Share capital	322	322	322	322	322	322	322	225	225	225
Shareholders' interest	807	771	713	662	627	601	560	381	362	347
Deposits from customers	7 434	6 180	5 844	5 078	4 634	4 426	4 230	3 941	3 322	2 881
Advances and other receivables	7 902	6 522	5 976	5 111	4 646	4 473	4 242	3 753	3 269	2 826
Total Assets	8 674	7 363	6 834	5 880	5 329	5 058	4 814	4 411	3 716	3 246
Statement of Comprehensive Income (Rm)										
Profit before taxation	51	102	87	74	58	76	55	40	34	26
Total comprehensive income for the year	36	75	65	51	41	56	40	29	25	16
Share Statistics (Cents)										
Basic and diluted earnings per share	112	231	203	158	128	171	154	129	112	77
Headline earnings per share	112	229	202	162	127	171	154	129	114	76
Dividend per share	-	55	55	50	50	45	45	45	45	45
Net asset value per share	2 502	2 390	2 201	2 052	1 943	1 866	1 736	1 692	1 608	1 541
Ratios (%)										
Return on average shareholders' interest	4,6	10,0	9,5	7,9	6,7	9,5	8,5	7,8	7,1	4,6
Return on average total assets	0,5	1,0	1,0	0,9	0,8	1,1	0,9	0,7	0,7	0,5
Shareholders' interest to total assets	9,3	10,5	10,4	11,3	11,8	11,9	11,6	8,6	9,7	10,7

SHAREHOLDERS' INTEREST
Ordinary share capital, share premium, non-distributable reserves and distributable reserves.

RETURN ON AVERAGE SHAREHOLDERS' INTEREST
After-tax income attributable to ordinary shareholders 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
After-tax income attributable to ordinary shareholders for the year, expressed as a percentage of the weighted average total assets in a particular year.

BASIC AND DILUTED EARNINGS PER SHARE
After-tax income attributable to ordinary shareholders 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 2020 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 comprised:

- Four non-executive directors;
- Four independent non-executive directors; and
- Three executive directors.

The bank's dedicated board of directors comprised the following during the 2020 financial year:

NON-INDEPENDENT, NON-EXECUTIVE DIRECTORS

AA Yousif (65) - Bahraini
Non-executive chairman

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

SA Randeree (58) - British
Vice chairman

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

MS Paruk (66) - South African

CA (SA), F.inst.D
Joined the board in 2004
Board committee memberships
☐ BCC ☐ R,CM & CC ☐ AC ☐ REMCO

MJD Courtiade (67) - French

CA (SA)
Joined the board in 2004
Board committee memberships
☐ R,CM & CC ☐ BCC

INDEPENDENT NON-EXECUTIVE DIRECTORS

YGH Suleman (63) - South African

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

Adv. JMA Cane SC (54) - South African

LLB, LLM
Joined the board in 2018
Board committee memberships
■ SEC ☐ DAC ☐ R, CM & CC ■ REMCO

ZH Fakey (46) - South African

CA (SA)
Joined the board in 2019
Board committee memberships
☐ SEC ☐ AC ■ R, CM & CC

SM Nyasulu (38) - South African

LLB
Joined the board in 2020
Board committee memberships
☐ SEC

EXECUTIVE DIRECTORS

SAE Chohan (55) - South African
Chief executive

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

M Kaka (41) - South African
Chief operating officer

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

A Ameed (39) - 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
Shaykh MS Omar B.Com Law, LLB (Chairman)
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 Craddock Avenue, Cradock Square, Office 01006
First Floor, Regent Place, Rosebank, Johannesburg, 2196
PO Box 42897, Fordsburg, 2033

CORPORATE OFFICES
GENERAL MANAGER:
I Yuseph

DURBAN
Corporate 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 Craddock Avenue, Cradock Square, Office 01006
First Floor, Regent Place, Rosebank, Johannesburg, 2196
PO Box 42897, Fordsburg, 2033

CAPE TOWN
Corporate 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: SAA 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: M Dadabhay
Shop G20, The Zone, 117 Oxford Road, Rosebank, 2196
PO Box 42897, Fordsburg, 2033

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

ECONOMIC REVIEW
The world and South Africa were plunged into the worst economic decline in people's lifetime in 2020.

Action taken by Governments to suppress the spread of the COVID-19 virus through lockdowns on social mobility contributed towards tens of millions globally losing employment.

However, the impact diverged depending on the sector involved.

Businesses involved in hospitality, leisure and personal services industries were far more negatively affected than others, whilst some activities related to digital and virtual technology, online trading and improvement of the environment and healthcare, benefited.

More generally, after plunging dramatically in the strict lockdown of April and May, activity gradually picked up through the rest of 2020 as and when various restrictions on activity were lifted.

Although a resurgence of the virus at the end of 2020 has seen the re-imposition of certain restrictions on social activity, the economic impact is unlikely ever to be as severe as that witnessed in mid-2020.

Instead, the development of vaccines to fight the virus has resulted in optimism that 2021 will see some improvement on a dreadful 2020.

Nonetheless, in South Africa especially, it is unlikely that activity will be restored to levels seen prior to the onset of the COVID-19 crisis for a good few years.

Structural impediments to growth which existed prior to the crisis have not yet been properly addressed. Unless they are forthcoming, there is little reason to expect South Africa's economic performance to return to pre-crisis levels soon.

Instead, one of the main challenges will remain the deteriorating fiscal situation resulting from insufficient tax revenues due to an underperforming economy and excessive public expenditure that has frequently not been well directed.

AL BARAKA BANKING GROUP
Al Baraka Bank in South Africa is a subsidiary of the internationally-acclaimed Al Baraka Banking Group, based in Bahrain.

Al Baraka Banking Group is licenced as an Islamic wholesale bank by the Central Bank of Bahrain and is listed on the Bahrain Bourse and Nasdaq Dubai Stock Exchanges.

However, in December 2020 Al Baraka Banking Group shareholders approved a decision to seek a change to its licence, from wholesale to Investment Firm.

The change will not affect the continuance of its units around the world as subsidiaries of the group.

The group and its subsidiary units offer retail, corporate, treasury and investment banking services, strictly in accordance with the principles of Islamic Shariah.

In spite of the disastrous economic impact of the COVID-19 pandemic across the world, the group maintained its growth trajectory, posting financial results for the 2020 financial year, which saw total assets exceed US$28,2 billion.

2020 FINANCIAL PERFORMANCE: SOUTH AFRICAN SUBSIDIARY
The emergence of the COVID-19 pandemic at the end of 2019 and throughout 2020 has wreaked havoc on the economies of countries across the world, and South Africa was no exception in this regard. The year 2020 will most certainly go down in the annals as the most difficult time in the world's recent history. It comes as no surprise that Al Baraka Bank's financial performance during this period mirrors the global economic gloom.

"FOLLOWING ON THE SUCCESS OF THE EXCEPTIONAL SUCCESS AND STRATEGIC IMPORTANCE OF OUR PREVIOUS TIER 2 SUKUK (INVESTMENT CERTIFICATES) ISSUANCE, WE MOVED DURING THE 2020 FINANCIAL YEAR TO APPLY TO THE REGULATORY AUTHORITIES FOR APPROVAL OF A R500 MILLION TIER 1 SUKUK."

The 2020 financial year saw our bank's realisation of disappointing net income, before tax, of R51 million - discouragingly 50% down on our 2019 figure - whilst third party advances levelled, with no growth generated. The economic effects of the pandemic also adversely impacted our organisation's cost income ratio, reflecting an increase of 8% over the previous year to 78%.

Necessarily harsh lockdown restrictions in a difficult period led to the increase of IFRS9 provisions, whilst the ban on air travel took a great toll on the bank's foreign exchange income. In addition, the bank's annual profit rate was reduced from 10,25% to 7% in the review period. On a more positive note, however, the South African Reserve Bank afforded the industry certain relaxations, especially of a capital and liquidity ratio nature, in an effort to assist financial institutions successfully navigate the worst effects of the 2020 lockdown.

Equally and quite surprisingly, the bank showed a 18% growth of its balance sheet, driven by a significant increase in deposits. This may be attributed to an appreciably conservative approach exhibited by clients and their exceptionally careful financial management, switching to higher levels of saving than was previously the case, in order to provide funding buffers in the face of growing economic hardship.

Following on the success of the exceptional success and strategic importance of our previous Tier 2 Sukuk (investment certificates) issuance, we moved during the 2020 financial year to apply to the regulatory authorities for approval of a R500 million Tier 1 Sukuk.

Sukuk affords stakeholders an exceptionally attractive Shariah-compliant investment option. This product has historically attracted massive investor support from across South Africa.

The use of such an approach will, if approved, significantly assist the bank's capital management, funding growth and enabling our increased reach of a broader market.

DIVIDEND
As a consequence of the appalling economic impact of the global pandemic and in line with guidelines issued by South African regulatory bodies, Al Baraka Bank made the decision not to declare a dividend in the 2020 financial year.

SIGNIFICANT ACHIEVEMENTS
In spite of the pandemic-related challenges which characterised the 2020 financial year, we were still able to make great developmental strides on the technological front, bringing to fruition a number of projects designed to enhance our customer experience. Given the technologically advanced world in which we live and work today, it has become abundantly clear that technology-driven business solutions are playing a substantial role in the financial services sector. Al Baraka Bank has fully embraced technology as the way of the future.

We took a major step forward with the successful and seamless 'live' introduction of our new core banking system on 01 February 2020. This project - one of the biggest we have ever undertaken - followed an intensive period of back-office work involving a large and dedicated staff team whose activities touched every aspect of the bank's business. Crucially, the resultant new system will give effect to greatly enhanced business efficiency and effectiveness.

With the system's successful implementation, 2020 saw the roll-out of a series of vital implementation actions, inclusive of the settling-in of the new system and the provision of important end-user support, involving all-inclusive staff engagement, training and change management interventions.

In essence, the work-flow-orientated banking system has, through 2020, given effect to greatly improved levels of productivity and more efficient customer service, whilst positioning the bank to meet our digitalisation objectives.

Indeed, the review period witnessed an acceleration of our digitalisation programme, which was approved in 2019, and forms part of a group-wide strategy which seeks to further embrace technology, thus ensuring that we remain at the leading-edge of future technological advancements in the banking industry.

We have taken up five digital business themes, which are in keeping with the group strategy. Such themes include redefining the customer experience, people engagement, process innovation, product innovation and the leveraging of the new core banking system.

Key to the adoption of digitalisation is our implementation of a robotic automation system, enabling the replacement of previously manual systems with automated management practices and techniques. The envisaged impact of robotics within the bank is improved organisation-wide efficiencies, an enhanced banking experience for clients and the introduction of paperless document management.

Ironically, the COVID-19 pandemic further hastened our digitalisation moves.

The introduction of remote working in 2020 - a consequence of the pandemic - necessitated our fast-track introduction of a new way of work and the adoption of new technologies in order to maintain business momentum and, indeed, sustainability.

We moved quickly to enhance and accelerate the utilisation of video conferencing, Microsoft Teams, Zoom and Webinar online platforms to ensure continued and effective interaction and communication with our board, members of staff and, most importantly, our clients, regulatory authorities and other key stakeholders.

In line with our commitment to extending our online presence, we commenced the development of a wide-ranging and all-inclusive mobile App during the 2020 financial year, a move which will greatly improve client service and, in turn, positively impact the overall client banking experience.

Equally, the 2020 financial year saw a major revision to our online statements service. We introduced a new method of providing statements to clients online; a method which now includes a series of options and is more user-friendly.

Following what proved to be a most difficult year for so many, we were delighted to learn at the beginning of 2021 that our financial institution had been named as the Malaysia-based REDMoney Group's 'IFN Best Islamic Bank in South Africa 2020,' in its annual IFN Best Banks Poll.

This, we believe, to be a most noteworthy achievement, especially coming - as it does - in the wake of such immense global economic upheaval and major change in the way of work as we know it.
We are honoured and humbled by such an international business accolade and regard it as a reflection of the success of our organisation's vision and strategy.
Rest assured, we will utilise such inter-continental recognition to redouble our efforts to implement our strategies to best effect. Our overriding goal is to better serve our clients through the continued development and provision of innovative Shariah-compliant banking products and services, in line with the ever-evolving requirements of the people we serve.

HUMAN RESOURCES
Reflecting on the 2020 financial year, it is clear that this was a period of unprecedented stress, burnout and extreme uncertainty for many in South Africa. In view of Al Baraka Bank being recognised as an essential services provider - resulting in our being able to keep our branches open to the public - we acted swiftly to ensure the safety of both staff and clients, maintaining business operations and, importantly, service delivery levels, whilst adhering to lockdown restrictions.

We recognised the well-being of our members of staff to be of paramount importance in the face of the uncertainties associated with the COVID-19 pandemic. We also recognised that such uncertainty had the potential to lead to increased levels of anxiety and stress and that the mental health of individuals could be affected as a result of the sudden and unexpected lifestyle and social interaction changes which became so necessary.

We, accordingly, implemented a range of communication strategies so as to ensure that members of staff were kept informed and engaged. A number of remote awareness sessions were conducted by professionals in the fields of medicine and psychology during the period under review. The bank also made available staff counselling support services.

We were equally aware that remote working could result in challenges for some unfamiliar to working in isolation and lacking a sense of distinction between home and work and the hours of work and leisure. We, accordingly, employed the services of a professional to advise how best home-based staff members should work in a structured manner.

CORPORATE SOCIAL INVESTMENT
Al Baraka Bank is well aware of the fact that South Africa's business community has a moral duty to contribute meaningfully towards addressing prevailing social challenges.

Our long-standing corporate social investment programme, which impacts the fields of education, health and welfare, sets out to empower the historically disadvantaged, regardless of race, religion or gender.

The pandemic-affected review period limited our ability to execute our intended programme of assistance effectively. Pleasingly, however, and in spite of lockdown restrictions, we were still able to deliver against our planned national school shoe donation drive, winter warmth blanket drive, Mandela Day food hampers for the poverty-stricken initiative, toys and treats for orphans drive and school stationery hamper and laptop computer donation programme.

The 2020 financial year saw our donation of a total of R2,7 million to these causes, whilst a further R6,1 million was donated to a charitable trust.

An additional and special intervention was our co-founding and co-funding of a foundation designed to provide financial relief for small to medium-sized businesses in a state of distress as a consequence of the severe economic disruptions in 2020.

We were, accordingly, delighted to be in a position to join forces with other big business players to establish and launch the Giving For Hope Foundation and to make a meaningful relief impact and to contribute towards national efforts to save South Africa's business community.

In this regard, we committed R10 million to the Giving For Hope Foundation and assumed the role of administering the newly

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

established body. As a responsible corporate citizen, we believed we had an obligation to respond to Government requests for the business community to assist in boosting the economy in the face of the COVID-19 pandemic.

Although we are likely to encounter further pandemic-related challenges during the 2021 financial year, we remain fully committed to the philosophy behind our corporate social investment initiatives and will strive to continue making a telling difference in the lives of the disempowered through our professionally-managed distribution of available funding.

THE FUTURE

Turning to the future and with no let-up in COVID-19 infections, 2021 promises to be another extremely challenging year for the business community in South Africa.

The massively depressed economy - further exacerbated by the ever-present energy crisis and attendant and detrimental system of load-shedding - will continue being adversely affected for many months to come.

However, access to and roll-out of vaccinations against the COVID-19 virus, which commenced in the first quarter of 2021, is likely to have a positive impact.

Regardless, prevailing negative sentiment will, most certainly, impact on our bank's profitability levels, although it must be stressed that we enjoy the wherewithal to ensure business sustainability until post-COVID-19 market-related profitability levels are restored.

We have in place strategic interventions to weather the prevailing economic storm and will utilise our wide-ranging digitalisation programme to ensure the bank's continued growth, delivery of an exceptional customer journey, improved productivity, greater business efficiency and enhanced product and service levels during the course of 2021.

APPRECIATION

We take this opportunity to report that the South African subsidiary's chairman, Mr Adnan Yousif, retired from his position as chief executive officer of Al Baraka Banking Group - a post he has held with great distinction - effective 31 December 2020. The decision to retire follows many years of unstinting service to Islamic banking generally and the group specifically.

His knowledge and experience to date has been hugely influential in our organisation's growth over the years.

Mr Mazin Manna, a graduate of the London School of Economics and Political Science, was appointed as Al Baraka Banking Group's new chief executive officer from 01 January 2021.

He brings to the position almost three decades of banking and financial services experience. He most recently served as chief executive officer of Abu Dhabi Islamic Bank.

In closing, the stalwart actions of the bank in 2020, coupled with our technological achievements in the face of economic adversity and an extremely challenging operating environment, are directly attributable to the commitment of the dedicated members of our board, management and staff.

We must, at the outset, thank Al Baraka Banking Group for its ongoing support of our unit, here in South Africa. Being a subsidiary of one the foremost Islamic banking organisations in the world has most certainly equipped our business to better withstand some of the negative influences brought about by the pandemic.

Equally, we are most thankful to the members of our board for their leadership, astute decision-making and strategic interventions at this most difficult time in our history.

This has contributed in no small measure to the successes we have achieved, in spite of the pandemic and its effects on our overall 2020 financial performance. We greatly appreciate the business acumen they bring to our deliberations and the wise counsel which underpins the bank's continued growth for the benefit of our clients.

Additional thanks are extended to our board of directors, members of our executive team, senior management and staff for their commitment, dedication and willingness to adopt a new way of work so as to ensure that our clients were never compromised.

The so-called 'new normal' required very real and challenging levels of change; change which this group of individuals collectively embraced to ensure a seamless transition to remote working, office staff rotations and the use of online platforms for communication purposes - all without negatively impacting our delivery of great client service.

Last, but not least, to our loyal shareholders and clients, we proffer our most sincere and deep-felt thanks for your continued and unstinting support and - indeed - patience during this most difficult operating period. It is our opinion that your unreserved backing of our bank in 2020 is an endorsement of your belief in our organisation and its sustainability, bolstering our resolve to demonstrate unity in the face of adversity in the quest to overcome the harsh conditions brought about by the health pandemic sweeping the globe.

To all our stakeholders, we say that prosperity will prevail, we shall overcome the present hardships and that Al Baraka Bank is poised to emerge resurgent and healthier for the experience of such unprecedented economic turmoil.

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

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

12 March 2021

HUMAN RESOURCES REPORT

The advent of the COVID-19 pandemic and subsequent lockdown restrictions has, without a doubt, had an adverse impact on the full implementation of Al Baraka Bank's progressive human resources strategy.

However, as we reflect on the 2020 financial year, we acknowledge that in spite of the unforeseeable challenges associated with the pandemic, there are number of successes for which the organisation may be commended and which it celebrates.

AGILITY IN THE FACE OF ADVERSITY
Through the effective utilisation of digital solutions, the organisation was able to swiftly ensure business continuity by deploying the majority of our workforce to work remotely. This ensured that our employees continued to be actively engaged in work activities in spite of the high level of uncertainty that was experienced.

As Al Baraka Bank is an essential services provider, we were able to keep our branches open to the public through effective staff planning and, therefore, continued with our operations whilst adhering to lockdown restrictions and ensuring the health and safety of our employees.

During this time, the bank was proactive in placing great emphasis on the development of robotics and utilised data analytics to enhance efficiencies.

Flexible working solutions were continuously explored as the bank adjusted to the 'new normal' within the world of work.

FOCUS ON EMPLOYMENT RETENTION
Regardless of the massive impact of large-scale unemployment in both the industry sector and the country at large, due to the effects of COVID-19, Al Baraka Bank's staff compliment remained intact, as we managed to steer clear of the need to retrench any permanent employees.

Our priority remained focused on the retention of our most valuable asset, being our intellectual capital, notwithstanding the challenges associated with balancing the bank's cost to income ratio.

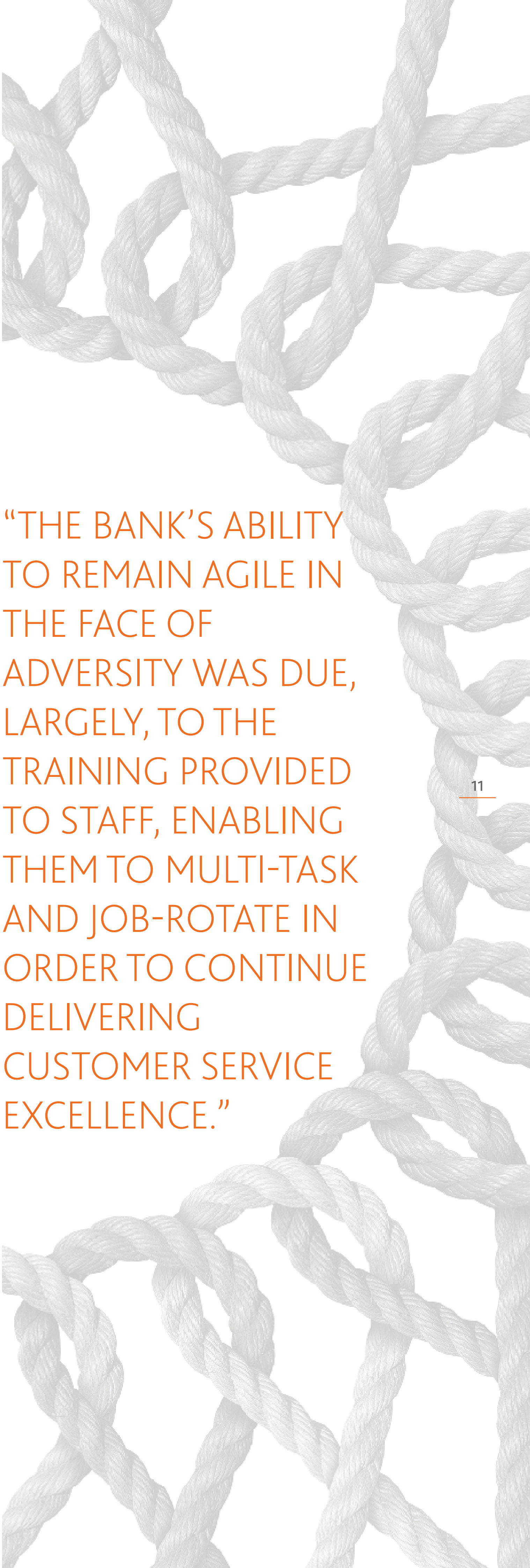
EMPLOYEE WELL-BEING
The importance of employee satisfaction and the need to ensure the well-being of our employees received a greater level of focus, especially during this difficult period. We realised that uncertainty would result in increased levels of anxiety and stress and, accordingly, the bank embarked on a wide range of communication strategies, which included surveys to ensure that our employees were kept well informed and fully engaged.

Several awareness sessions were conducted by professionals in the fields of medicine and psychology through the effective use of technology. We acknowledged the fact that the mental health of employees could well be affected due to sudden changes to their lifestyle and social interaction. The bank, therefore, also made available counselling support services, should members of staff have required such assistance.

TRAINING AND DEVELOPMENT
A strong culture of continuous learning and development continued to permeate the organisation during 2020. Through the use of technology and e-learning, the bank was able to successfully fulfil its regulatory training requirements to large-scale audiences.

The bank's ability to remain agile in the face of adversity was due, largely, to the training provided to staff, enabling them to multi-task and job-rotate in order to continue delivering customer service excellence.

We were also proud to announce that Al Baraka Bank was accredited as a Training Office by the South African Institute for Chartered Accountants (SAICA), enabling our organisation to employ trainee accountants in order for individuals to attain Chartered Accountant qualifications.



"THE BANK'S ABILITY TO REMAIN AGILE IN THE FACE OF ADVERSITY WAS DUE, LARGELY, TO THE TRAINING PROVIDED TO STAFF, ENABLING THEM TO MULTI-TASK AND JOB-ROTATE IN ORDER TO CONTINUE DELIVERING CUSTOMER SERVICE EXCELLENCE."

HUMAN RESOURCES REPORT (CONTINUED)

This was, indeed, a milestone achievement for the bank and one which is in keeping with our strategy to deliver training to exceptional standards. We embarked on the programme in 2020 with an internal candidate and are enthusiastic about growing the programme so as to become a training office of choice in the future.

CHANGE MANAGEMENT

The occurrence of the COVID-19 pandemic co-incided with the launch of the new core banking system - another milestone achievement for the bank - in February 2020.

Change management strategies and the use of effective communication played a significant role in managing these fundamental changes and to ensure that our employees were fully on-boarded, enabling them to cope with the disruption, both internally and externally. Organisational restructuring, in keeping with the fourth industrial revolution trend of digitisation, remains a primary focus for the bank and, as such, we have proactively set about addressing the bank's centralisation strategy, in order to bring about operational efficiency and to enhance both customer satisfaction and profitability.

SUCCESSION PLANNING

The bank's growth trajectory emphasises the importance of succession planning and the need for the business to continue operating seamlessly in the face of attrition and change.

The bank was successful in this regard during the 2020 financial year, given that we were able to continue seamlessly conducting business while operating remotely and on a skeleton staff basis.

The bank is continuing to develop home-grown talent through, especially, our accelerated development and women in leadership programmes.

Workforce profile as at 31 December 2020

	AIC*		White		Total		Total
	Male	**Female**	**Male**	**Female**	**Male**	**Female**	
Top and senior management	4	0	0	0	4	0	4
Professionally qualified and experienced specialists in mid-management	28	12	4	2	32	14	46
Skilled technical and academically qualified workers, junior management and supervisors	68	81	1	1	69	82	151
Semi-skilled and discretionary decision-making	30	68	1	0	31	68	99
Unskilled and defined decision-making	1	5	0	0	1	5	6
Total	**131**	**166**	**6**	**3**	**137**	**169**	**306**

AIC* = AFRICAN, INDIAN AND COLOURED

INFORMATION TECHNOLOGY REPORT

Technology-driven solutions play a significant role in financial services, made more evident in the drastic shifts seen during the recent period intensified by the pandemic. With digitalisation at its epicentre, the world of finance and modes of operating have been considerably impacted. Al Baraka Bank embraced the opportunity with the adoption of five digital business themes, in line with the group strategy, namely Redefining Customer Experience, People Engagement, Process Innovation, Product Innovation and Leveraging Core Banking Systems.

The implementation of the iMal core banking system went into production in February 2020. Post-implementation activities, settling-in of the system and end-user support continued during the year, taking the bank closer to leveraging the core banking system with regard to its digitalisation objectives. Benefits of the user-friendly and work-flow-orientated system have made a positive impact on users and this translates into enhanced productivity, as well as efficient customer service resulting from extensive engagement, training and change management extended across the organisation.

In parallel with the iMal implementation, the bank successfully implemented Docuware, an electronic document management system, together with Signiflow for digital signatures which integrates tightly into the core banking system and making the on-boarding processes seamless and more efficient for both customers and staff alike. Historical documents from the old system were successfully migrated to the new environment by early 2021.

Other achievements include a new and easy-to-use online service for secure access to electronic statements for investments, advances and letters, with compatibility for both mobile and desktop/laptop computers. The customer experience has notably improved with simple, responsive and secure access to statement information online.

Robotic Process Automation (RPA) developments saved several man hours through the conversion of labour-intensive back-office processes into rules-based repetitive processes. This includes robots created for forex rates monitoring, uptime/downtime services monitoring, AML alert clearing, selected Internal Control Officer functions, and loyalty calculation and processing. The financial and efficiency advantages of robotic processes are apparent with human counterparts being able to focus on other core business requirements, while improving overall processing turn-around times.

Power BI reporting has set the tone for data insights that were previously difficult to achieve through traditional and often labour-intensive methods. Power BI represents Business Intelligence through the ability to extract and dynamically re-organise data sets into meaningful trends, sort orders and graphical views, which can be further drilled down to enable deeper levels of analysis. Having access to information at our fingertips helps with more efficient and informed decision-making processes.

With graphical illustration, cross-sectioning and organisation of data, there is a growing need to exploit the power and intelligence of Power BI reporting. User awareness is encouraged at all levels with regard to how best to use Power BI and to build meaningful reports; something which is expected to see greater adoption going forward. Productivity and efficiency on a remote basis have taken on a new dimension with collaborative workspaces, interactive meetings and planning boards on Teams proving to be powerful tools.

Zoom and Teams virtual meetings have easily been adopted as the default methods of communication, together with classroom training sessions, webinars and internal/external meetings under the 'new normal.'

In the mobile banking space, Al Baraka Bank commenced its journey to build a cross-platform mobile banking channel over a multi-phased, multi-year project incorporating customer on-boarding, transactional banking, investments, finance, Murabaha trade, cross-border trade and more. The solution build for the initial phase is envisaged for early 2021, with delivery targeted for mid-2021.

"NOW, MORE THAN EVER, RETAINING AND ATTRACTING CUSTOMERS THROUGH DIGITAL CHANNELS, WHILE LEVERAGING VITAL DATA SOURCES IN A SECURE AND SEAMLESSLY INTEGRATED ENVIRONMENT BACKED BY A DYNAMIC WORKFORCE, ARE FUNDAMENTAL TO ENHANCING ORGANISATIONAL SUCCESS."

Digitalisation presents opportunities to rethink and reshape business. Similarly, for cybercriminals such opportunities present new mediums for exploitation, especially in an industry dealing with sensitive personal and financial information.

Independent security monitoring services provides 24/7 visibility of critical security end-points and security awareness is reinforced through ongoing communications and learning programmes to strengthen human firewalls.

These measures, coupled with threat advisory services, is an ongoing process to assist in hardening the bank's layers of defence. Additionally, cyber liability insurance with cyber extortion, third party outsourced service provider and network interruption cover remains in effect.

In the event of business disruption, disaster recovery and continuity plans are in place for critical operations.

This includes High Availability Systems, replicated to off-site Data Centres in Gauteng and KwaZulu-Natal, with access to four cold-recovery Data Centres around the country. Enhancement of disaster recovery and business continuity plans will be undertaken, considering the system and environment changes over the period.

Al Baraka Bank is an active member of the South African Banking Risk Information Centre (SABRIC) and is represented at several forums that collaborate in industry-wide initiatives, including key risk identification, analysis of cyber security events, incident responses, framework development 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.

Now, more than ever, retaining and attracting customers through digital channels, while leveraging vital data sources in a secure and seamlessly integrated environment backed by a dynamic workforce, are fundamental to enhancing organisational success.

At Al Baraka Bank, we see digitalisation as the catalyst in our drive towards enhancing the internal and external customer experience, increasing profitability, reducing expenses, transforming business processes and competing in an aggressive financial market.

Customer-centricity, technology risk, cyber security and corporate governance remain the cornerstone of the business and IT culture, with the adoption of a risk-based approach guided by regulatory directives.

CORPORATE GOVERNANCE REPORT

The board recognises that the application of a robust governance framework is essential in order to build value for Al Baraka Bank's stakeholders.

The development and enhancement of the bank's governance frameworks has enabled it, during the course of 2020, to perform at its optimum, remain sustainable and deliver on both its corporate obligations and regulatory requirements.

The rapidly changing nature of the business environment within which the bank operates has witnessed the introduction of fundamental changes from a regulatory and governance perspective, including various regulations imposed on the bank, as an essential service provider during the current COVID-19 pandemic.

The 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 a 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.

COVID-19 PANDEMIC AND ITS IMPACT ON GOVERNANCE OUTCOMES

As the COVID-19 crisis unfolded during the period under review, the board ensured that good governance principles remained at the core of every thought, decision made and action taken, in spite of adverse conditions.

The board remained committed to its primary objective to lead ethically and effectively, guiding the business through the pandemic in an ethical, effective and collaborative manner. In this regard, the board maintained oversight over the following key areas:

- That the bank remained true to its core values in terms of support to employees, debt relief to customers - as guided by the applicable directives issued by the Prudential Authority - fair treatment of suppliers and appropriate initiatives to assist the community at large;
- Regular communication to both internal and external stakeholders in an effective and transparent manner;
- Treating the health and safety of both employees and customers as a priority and ensuring unequivocal compliance with applicable health and safety regulations;
- Multi-skilling, cross-skilling and up-skilling staff during the pandemic to ensure the effective utilisation of the bank's human capital;
- Adequate technological support for staff working from home, including awareness and safeguards against IT risks created through remote working;
- Convening of board and board committee meetings on a virtual basis and in an effective manner; and
- Continuation of on-going director training and education via online/virtual platforms.

ROLE AND FUNCTION OF THE BOARD

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

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.

The board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the period under review. The board met on four occasions in 2020 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.

"AS THE COVID-19 CRISIS UNFOLDED DURING THE PERIOD UNDER REVIEW, THE BOARD ENSURED THAT GOOD GOVERNANCE PRINCIPLES REMAINED AT THE CORE OF EVERY THOUGHT, DECISION MADE AND ACTION TAKEN, IN SPITE OF ADVERSE CONDITIONS."

BOARD COMPOSITION AND STRUCTURE

4 Independent Non-Executive
4 Non-Executive
3 Executive

Al Baraka Bank has a unitary board structure and comprised 11 directors for the period under review.

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, four of the directors are classified as independent non-executive directors and four as non-executive directors, with the remainder of the directors being executive directors.

The executive directors consist of the chief executive, the chief operating officer and the financial director. The board, in consultation with the directors affairs committee, has implemented 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

7 CA (SA)
2 MBA
2 LLB/LLM

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 an appropriate balance of power and authority, such that no one individual has unfettered decision-making powers. The roles and responsibilities 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 held the position of president and chief executive of Al Baraka Banking Group up to 31 December 2020. 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 considered 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 held by Mr YGH Suleman for the period under review.

DIRECTOR AGE ANALYSIS

4 Under 50 years
4 Over 60 years
3 Between 50-60 years

The directors' affairs committee, in accordance with its terms of reference, conducts an annual review of the composition of the board and the respective board committees. This process focuses on ensuring that, ultimately, the board 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.

APPOINTMENTS AND RETIREMENTS

Having conducted its review of the board and board committee composition, the board of directors supported the recommendations made by the directors' affairs committee and appointed one new director in 2020, namely, Ms SM Nyasulu, as an independent non-executive director.

Ms Nyasulu is a qualified legal practitioner and brings with her a wealth of experience within the legal profession, with specific reference to labour law and Broad-Based Black Economic Empowerment, amongst other matters.

During the period under review, the bank bade farewell to two long-serving non-executive directors, A Lambat and F Kassim, who retired on 31 March 2020, after having served the bank with distinction and commitment since 2006.

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 remains 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.

The board acknowledges the importance of succession planning and has an appropriate succession plan in place, shaped by Directive 4 of 2018 and King IV considerations of gender and race, as well as the group policy requirements. In giving effect to this, six long-serving directors have stepped down from the board since 2016, with the most recent retirements of F Kassim and A Lambat having taken place in March 2020.

The appointment of directors is both a formal and transparent process and is conducted in terms of prevailing legislative and regulatory requirements, which specifically include 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 the 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 9 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 the board consists of an appropriate balance of independent and non-independent directors.

BOARD TENURE

6 Less than 9 years
5 Greater than 9 years

DELEGATION OF AUTHORITY POLICY

The bank's delegation of authority policy is reviewed every two years. 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.
The next review is scheduled to take place in 2021.

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 day-to-day business activities.

DIRECTOR DEVELOPMENT AND INDUCTION
Given the continuous changes within the banking environment, the board has prioritised on-going director development and education, ensuring that its directors are kept abreast of the latest developments pertaining to legislation, regulation, risk and changes in the external environment impacting on the bank's business framework.

The concept of on-going director development is referred to in both King IV and Directive 4/2018 and remains a key objective of the board. Director training is formally considered at the bank's training committee and monitored by the directors' affairs committee.

During the course of 2020, various training sessions - on a virtual basis - were undertaken by the directors. In addition, the board was formally briefed on the latest developments in terms of anti-money laundering.

Following her appointment to the board of directors, Ms Nyasulu attended a director induction programme and was introduced to key members of management. The induction programme provided an extensive overview of the business operations of the bank.

Both SM Nyasulu and JMA Cane SC attended the board banking leadership programme, offered by the Gordon Institute of Business Science. Technology governance training was attended by MJD Courtiade and Z Fakey. Mr Fakey also attended a social and ethics training programme. Given the onerous demands placed on the directors, coupled with their increasing legal responsibilities, the identification and undertaking of relevant director training will continue to assume a key focus area during the course of the ensuing year.

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 2020 evaluations were conducted by an external service provider.

The evaluation outcomes confirmed that the board is highly effective, with developmental areas being at the margin rather than any fundamental shortcoming, is well organised and able to deal with all aspects of governance in order to fulfil its oversight responsibilities. The outcomes have been shared with the board of directors.

The board is satisfied that the evaluation process adopted supports the continued improvement of its performance and effectiveness.

BOARD AND COMMITTEE ATTENDANCE
The table below records the attendance of the board and board committee members in respect of board and board committee meetings held in 2020:

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

1 = Chairman
2 = Vice-chairman for 2020
3 = Appointed independent, non-executive director in April 2020
4 = Retired on 31 March 2020
5 = Regulatory executive

BOARD COMMITTEES

The board committees assist the board in discharging its duties and responsibilities. Each committee is guided by formally written charters which set out the terms of reference and functions of the respective committee. There are six standing committees, appointed by the board, 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 has also appointed a specified board property committee tasked with overseeing the future development of the bank's Kingsmead Office Park property. It is envisaged that upon completion of the property development, this committee will have concluded its mandate and will be disbanded.

Also included in the bank's governance framework are 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 provide independent oversight of internal controls throughout the bank, internal and external assurance 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 group's interim and annual financial statements and recommending approval to the board;
- Approving the external auditor's terms of engagement, evaluating their independence and reviewing the quality and effectiveness of the external audit process;
- Setting mandatory terms on the length of time that an audit partner may serve;
- Ensuring a 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 comprehensive 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 internal audit function.

During the period under review, in response to the COVID-19 pandemic, the committee reviewed and approved the revised audit functional plan. The audit committee, met on five occasions during the 2020 financial year and confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review. The three 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 significant IT investments and projects, including the evaluation of projects throughout their life-cycles, and considering the benefits realised from these investments, which includes ensuring that information assets are managed effectively.

During the year under review, various risk reports were tabled at committee meetings to assess the risks facing the bank due to COVID-19.

The risk, capital management & compliance committee met on five occasions during the 2020 financial year and confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review.

....

Z Fakey

Chairman: risk, capital management & compliance committee

BOARD CREDIT COMMITTEE

The purpose of the board 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 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.

In overseeing the impact of COVID-19 on the credit portfolio, key agenda items for 2020 included statistics and progress reports on payment deferments and assessing the impact of a second lockdown, as well as extensive stress testing on the property advances portfolio of the bank.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The board credit committee met on six occasions during the 2020 financial year and confirms that it has fulfilled its responsibilities, as set-out in its charter for the year under review.

....
SA Randeree
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.

The committee met on four occasions during the course of the 2020 financial year 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.

....
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 which 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 on two occasions during the course of the 2020 financial year 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 by invitation, in accordance with the recommendations of the King IV Report on Corporate Governance.

....
Adv. JMA Cane SC
Chairman: remuneration committee

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

A summary of some of the key terms of reference of the social and 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 is and is seen to be a good corporate citizen by conducting itself in an environmentally-friendly and sustainable manner;
- Monitoring the application of ethical conduct throughout the bank in a way 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 the shareholders on 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 occasions during the course of the 2020 financial year and is satisfied that it has fulfilled its responsibilities, as set-out in its charter for the year under review.

....
Adv. JMA Cane SC
Chairman: social and 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 7 contributor, which is an improvement from the Level 8 received last year. The bank partnered with a leading B-BBEE management software company for its 2020/21 initiatives, with a view to identifying areas which could be improved upon.

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

"Sustainability is no longer about doing less harm. It's about doing more good."
- Jochen Zeitz

PREFACE
Al Baraka Bank, together with its key stakeholders, continue to operate in an uncertain, complex and volatile environment, intensified recently given the unprecedented impact of the COVID-19 pandemic and its economic effects.

In the face of adversity, the bank has had to demonstrate bold and courageous leadership, embracing new ways of thinking and has identified those material matters which could impact most on its ability to create sustained value for stakeholders. While these issues change over time, the major broad themes remain consistent.

Sustainability reporting is a means of demonstrably improving a company's commitment to sustainable development for the benefit of stakeholders, internal and external. Such improvement in performance enables them to impact positively on the future of society and the economy.

AL BARAKA BANK'S SUSTAINABLE DEVELOPMENT FRAMEWORK
The board of directors acknowledges that the concept of sustainable development is inextricably inter-linked to the triple context within which the bank operates.

The triple context, comprising the economy, society and environment, provides numerous opportunities, as well as risks, which the board and the bank endeavour to manage in a responsible manner, in line with its role as a responsible corporate citizen and being mindful of the competing needs and interests of all stakeholders.

Given this dynamic, the board of directors, in consultation with the respective board committees, has established a sustainability framework which is founded on sound and ethical economic practices and principles, a stakeholder-inclusive philosophy and an unwavering commitment to doing what is best for the environment.

STRATEGIC BUSINESS OBJECTIVES
Al Baraka Bank's key business objectives comprise the following:

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

RISK AND OPPORTUNITY
The board of directors supports the view expressed in King IV which recognises that there are potential opportunities inherent in a number of risks facing the organisation.

For this reason, the bank's risk management framework, which serves to identify and evaluate the risks that may impact on the operations of the bank, is monitored by the risk, capital management and compliance committee, in consultation with the board of directors on a quarterly basis.

The board of directors, which approves the bank's risk appetite, seeks to govern risk, more especially within the framework of the COVID-19 pandemic, in a manner that supports the bank in setting and implementing our strategic objectives. The bank constantly monitors the risk universe, both external and internal, through the implementation of the risk management framework and we derive significant value from our membership of relevant stakeholder organisations, such as the South African Banking Risk Information Centre and the Banking Association South Africa. In addition, the bank has continued to roll-out risk awareness training, which covers such areas of interest as cyber security, anti-money laundering and compliance-related aspects.

CORPORATE GOVERNANCE AND SUSTAINABILITY
Al Baraka Bank remains committed to sound governance principles, as set out in terms of the King IV Report on Corporate Governance.

"IN THE FACE OF ADVERSITY, THE BANK HAS HAD TO DEMONSTRATE BOLD AND COURAGEOUS LEADERSHIP, EMBRACING NEW WAYS OF THINKING AND HAS IDENTIFIED THOSE MATERIAL MATTERS WHICH COULD IMPACT MOST ON ITS ABILITY TO CREATE SUSTAINED VALUE FOR STAKEHOLDERS."

Functionally, the bank's directors' affairs committee assumes responsibility for adherence to best governance practice.

In giving effect to the bank's governance ethos, we adopt an inclusive stakeholder model of governance. In so doing, we acknowledge all identified stakeholder groups in our promotion of ethical behaviour across every facet of our business. From a Shariah perspective, the bank adheres to business principles and standards as set-out by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In terms of Shariah governance, we are prohibited from conducting certain banking business practices which are deemed unethical in terms of Shariah.

SUSTAINABLE DEVELOPMENT DELIVERY
The bank recognises the fundamental need to effectively and efficiently manage the dynamics which constitute the triple context as follows:

- **SOCIAL ISSUES**

Al Baraka Bank recognises that businesses play a vital role in society and believes that embracing a culture of strong corporate social programmes within the organisation reflects the bank's alignment with its values of contributing to the development of the community, leading to the enrichment and benefit of society.

Businesses have evolved, giving effect to a new generational shift of affairs, bringing about changes in work norms and changes in business environments. The sudden onslaught of the COVID-19 pandemic world-wide created its mark with devastating consequences, affecting the health of massive numbers of people and placing financial strain on many more since South Africa's hard lockdown in March 2020. Recognising the severity of the economic impact the pandemic wrought, Al Baraka Bank's sustainability and social responsibility committee set about re-strategising planned initiatives in order to assist in alleviating some of the pandemic's effects on the community. The bank, in keeping with our long-standing corporate social investment programme, directed support efforts towards providing additional resources through the sponsorship of PPE, food parcels and masks.

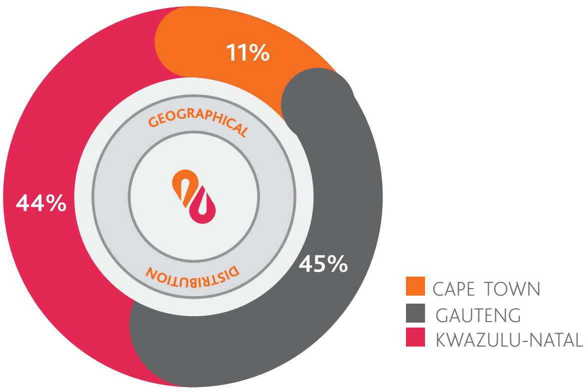
With the support of Non-Government Organisations, expertly equipped to facilitate distribution during the pandemic, the bank executed its annual initiatives. The Winter Warmth initiative brought a degree of comfort to some 2 000 vulnerable individuals and ensured that those most in need were a little better equipped to ward off the cold. Mandela Day in 2020 took on a new and ever more critical meaning as communities across the world were affected by the spread of COVID-19, giving rise to new socio-economic concerns and aggravating existing poverty levels. With the severely disadvantaged particularly at risk of COVID-19 and with many facing ever greater levels of poverty as a result of the prevailing economic turmoil, Al Baraka Bank dedicated its

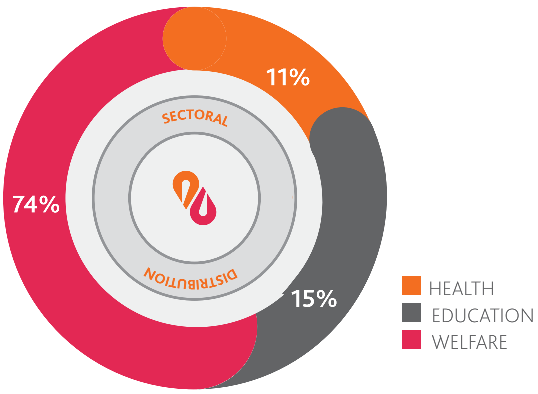
SUSTAINABILITY REPORT (CONTINUED)

67 minutes of assistance on Mandela Day, Saturday 18 July, to providing food hampers to some of the country's most vulnerable people. Former President, Nelson Mandela, once said: "Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life."

With the aim of contributing towards ensuring that Mr Mandela's concern for overcoming poverty was acted upon, Al Baraka Bank sponsored 350 food hampers nationally, with special attention being paid to the most vulnerable members of South African society living in some of the most needy areas of the country. In addition a further R198 300 was provided to various Non-Government Organisations which were equipped to facilitate food distribution under strict social distancing protocols. In an effort to help curb the effects of COVID-19 within the community, Al Baraka Bank contributed R500 000 towards the National Solidarity fund, R50 000 for Personal Protection Equipment, R50 000 for re-usable cloth masks and R25 000 towards the distribution of hygiene soaps to elderly people in need.

Al Baraka Bank also recognised the business devastation experienced by many small and medium enterprises and, accordingly, funded R10 million to the Giving for Hope Foundation, a fund jointly created by the Willowton Group of Companies and Al Baraka Bank to assist SMMEs in distress. Funds made available to businesses is repayable after 24 months, with no associated financing costs. Amongst the bank's other initiatives was a school shoe drive, enabling the provision of brand new school shoes to more than 1 000 disadvantaged school children across South Africa. During the course of 2020, we donated R2,7 million to projects in three categories, namely education, health and welfare. An additional amount of R6,1 million was provided to a charitable trust.





- **ECONOMIC ISSUES**

Al Baraka Bank, being a fully-fledged commercial financial institution which adheres to strict Islamic principles, continues to maintain a solid growth trajectory in the South African financial sector. We strive to be a responsible leader to our clients, providing appropriate products and services and endeavouring to ensure that they obtain maximum investment profits and are able to meet their financial obligations to the bank in accordance with the National Credit Act and legislations governing the financial sector.

The 2020 financial year proved challenging for all financial institutions and clients due to the prevailing COVID-19 pandemic and which affected business profits and repayments from clients. We provided much-needed assistance to our clients by entering into payment deferment agreements to lessen the burden during these extremely trying times. The bank continues to maintain a low bad debt ratio within the industry in spite of the tough economic climate. Through the increased traction of Islamic banking nationally and internationally, Al Baraka Bank is further able to leverage its footprint, as well as its continued economic sustainability within the financial sector.

- **ENVIRONMENTAL ISSUES**

The COVID-19 pandemic which first manifested itself at the end of 2019 has led to the re-alignment of our way of life and has integrally affected every facet of our social, spiritual and financial life. The daily routine and our lives, as we knew it, all but ground to a halt in the face of the pandemic and its effects on our health and overall well-being.

In response to the wild-fire spread of infection, Governments around the world were compelled to reduce business activity in an effort to minimise the threat of COVID-19. The South African Government, with widespread stakeholder support, instituted a range of regulations in a hard lockdown, which allowed for only essential sectors, such as banking, healthcare and supermarkets being permitted to operate. Many sectors of business were severely and adversely affected by the imposed curfew orders and country-wide lockdown. Health Minister, Doctor Zweli Mkhize, reported that all provinces across South Africa were to remain on high alert. Arising out of the first and second wave, the country successfully curbed COVID-19-related infections and deaths.

The pandemic has caused a social readjustment of daily routines, practices, behaviours, and, expectations; for example, people are having to adjust to being at home during quarantine, often without the option to work, or while conducting work activities remotely. An unexpected environmental outcome of the pandemic - the consequence of large numbers of people working from home and using home office applications - has been a reduction in carbon dioxide emissions. In addition, commercial and industrial electricity demand was also significantly reduced, although domestic demand grew, the result of people working from home.

OCCUPATIONAL HEALTH AND SAFETY - COVID-19

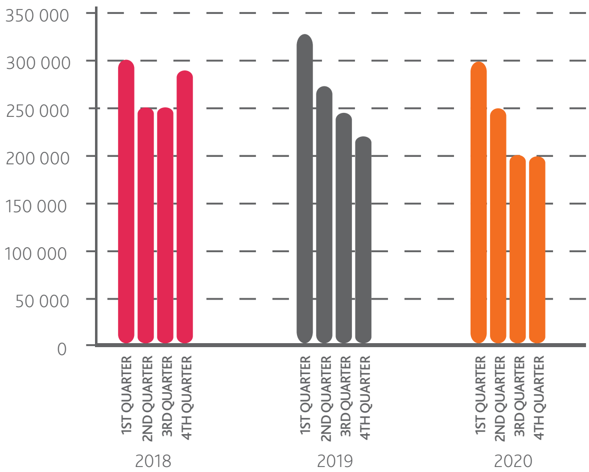
- Al Baraka Bank put into place a well-documented workplace plan in line with Government regulations to re-introduce staff back into the workplace;
- Extensive safety measures were put into place to ensure the safety of staff, service providers and our valued clients;
- Al Baraka Bank has, as a consequence of the pandemic, embraced a work-from-home programme, where possible. Branches have been operating with limited staffing, with back-up teams working from home;
- In addition, events, meetings, conferences and discussions have been held remotely using online platforms. Zoom and Microsoft Teams have been extensively utilised to bridge communication gaps;
- The sanitation of offices and retail areas is constantly being undertaken by cleaning crews;
- Desks, chairs, laptop computers and mobile routers have been made available to staff for remote work purposes;
- Personal Protective Equipment, including hand sanitisers, masks and gloves were made available to members of staff, whilst protective screens have also been installed. Commonly touched surfaces are cleaned and disinfected frequently, with social distancing implemented in all areas of work. Contact tracing and temperature screening of clients and staff was done continuously to ensure maximum protection for all;
- Weekly Occupational Health and Safety COVID-19 meetings were held with compliance officers and branch managers to ensure compliance;
- Management has adopted the extensive use of online platforms, including Zoom and Microsoft Teams for meetings and interactions with clients and other stakeholders, as well as communication with members of staff; and

- Board meetings were also conducted using online platforms, which has also assisted in greatly reducing travel and accommodation costs, as well as ensuring the safety of all concerned.

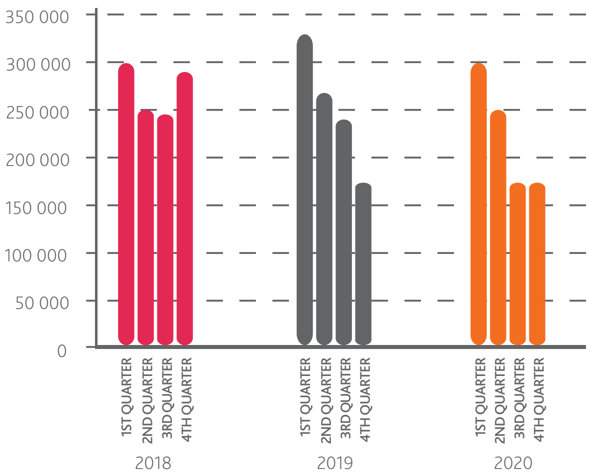
ENERGY MANAGEMENT

- Voltage Optimisation
  The bank has embarked on a project to monitor and reduce power consumption at its Kingsmead Office Park facility:
  - The bank has undertaken work on a voltage optimisation programme in an effort to reduce electricity costs;
  - It will ensure the integrity of power within buildings and the safeguarding of critical computer systems;
  - A proposal has been submitted to the bank for approval; and
  - If the programme proves viable, it will be rolled-out to our other buildings and branch units.
- Solar Energy
  - The bank has engaged with LTM ENERGY for the provision of a solar energy proposal;
  - An assessment will be undertaken at the Kingsmead Office Park facility and adjacent car-park; and
  - Grey water harvesting is also being investigated in an effort to channel and save rain-water for re-use.
- Head Office - Kingsmead Office Park
  - Sensor lighting has been installed in all kitchenettes and ablutions in order to reduce electricity consumption and eliminate excessive and unnecessary after-hours electricity usage.

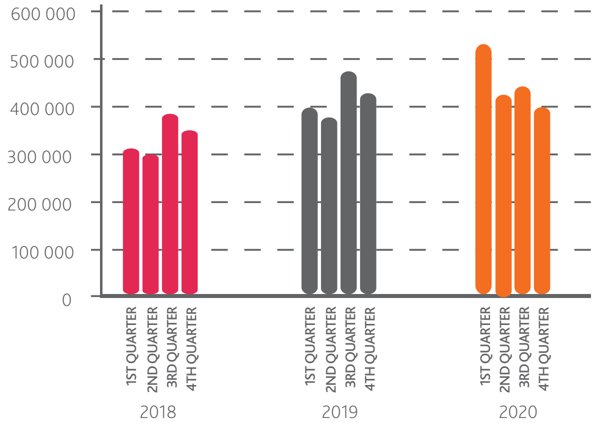
KINGSMEAD ELECTRICITY CONSUMPTION IN KW FOR 2018/19/20



KINGSMEAD WATER CONSUMPTION IN KL FOR 2018/19/20



KINGSMEAD E & W RAND VALUE



STAKEHOLDER ENGAGEMENT

Al Baraka Bank regards its engagement with stakeholders as a journey; one which is indicative of its commitment to a long and dedicated interaction with identified stakeholders.

- **CLIENTS**

Clients have been engaged across a number of different platforms, ranging from one-on-one interactions to the use of virtual platforms of communication.

The bank recognised the importance of ensuring that customer service was in no way comprised during the period of national lockdown and has reviewed ways in which customers could open and transact on their accounts remotely.

In addition, significant progress was made in developing a comprehensive mobile banking App in order that the needs and expectations of clients are effectively and efficiently met.

- **STAFF**

The bank's members of staff are regarded as a critical resource, essential to the success of the bank.

There has been continued engagement with staff throughout the year under review, inclusive of the implementation of numerous dedicated staff sessions dealing with, inter-alia, issues of wellness and health, given the impact of the COVID-19 virus specifically and the effects of the pandemic generally, and regular feedback from board and board committee meetings.

- **SHAREHOLDERS**

Shareholder communication has been conducted by means of both email and postal services, in terms of which shareholders have received copies of relevant information which has an impact on them as shareholders.

Given the impact of the COVID-19 pandemic, the bank held its first ever virtual Annual General Meeting, which was attended by a number of major shareholders.

- **COMMUNITY**

Al Baraka Bank has in place a dedicated programme of social outreach, which spans the disciplines of health, welfare and education.

Staff are required to participate in some form of social outreach throughout the year, which is so important within the South African context.

This outreach forms part of each staff member's assessment process.

In addition, the bank has partnered with the United Nations in driving its Development Programme initiatives.

SUSTAINABILITY REPORT (CONTINUED)

- **REGULATORY AND OTHER INDUSTRY BODIES**

Al Baraka Bank has consistently engaged with its set of regulatory and key industry bodies, inclusive of the Prudential Authority of the South African Reserve Bank, the Financial Intelligence Centre, the Financial Sector Conduct Authority, the Banking Association South Africa and the South African Banking Risk Centre.
We acknowledge that these bodies represent a vital role-player within the financial sector and such interactions have been characterised by transparency, mutual respect and the utmost good faith in all our dealings.

The chairman as well as the chief executive, meet independently with the Prudential Authority on an annual basis, which serves to reinforce the professional working relationship between Al Baraka Bank and the Prudential Authority.

- **MEDIA**

The bank continues to ensure that it is reflected positively in the media landscape through the implementation of a comprehensive media relations roll-out plan and maintenance of an updated media contacts database. Management is acutely aware of the key role that media plays in the promotion of business.

- **SUPPLIERS AND CONTRACTORS**

The bank has, throughout the year, promoted local procurement of goods and services wherever possible.

It is our policy to settle supplier's invoices in a timely manner, such that the suppliers, especially those of a small-scale nature, are not adversely impacted through cash flow constraints.

We view this as being core to our ethical approach to doing business with suppliers and contractors.

- **ISLAMIC SCHOLARS AND ORGANISATIONS**

Being the only fully-fledged Islamic, commercial bank in South Africa, Al Baraka Bank continues to maintain sound relationships with recognised Islamic scholars and organisations.

The bank's Shariah Supervisory Board comprises respected and highly-qualified Islamic scholars who enjoy significant influence across the South African Muslim community.

CONCLUSION

Al Baraka Bank has in place a well-established and board-approved stakeholder engagement policy, through which the process of engagement is conducted.

In giving effect to this policy, we seek to engage in meaningful interaction, which will add value to the business of the bank and have a real impact on the lives of stakeholders.

Through this journey with our stakeholders, we live out the bank's core values in a practical manner, which is consistent with the recommendations of King IV.

The board of directors remains committed to the bank's sustainability journey and, in spite of the challenges of the pandemic and the impact thereof, is satisfied that the bank has successfully achieved its 'triple context' objectives for the year under review.

No assurance has been obtained regarding the bank's environmental measures impacting on the 2020 financial year.

COMPLIANCE REPORT

The COVID-19 pandemic has affected individuals and entities throughout the world.

Compliance functions across various industries in South Africa have also experienced the impact of the pandemic. The Government, in its effort to stabilise the economy whilst balancing the health and safety of its residents, issued various Directives and Regulations throughout the year under review.

Compliance functions have spent the better part of the year attempting to keep abreast of all such Directives and Regulations issued in order to ensure compliance with the regulatory requirements and in order to protect people from contracting the virus and to curb its spread.

At Al Baraka Bank, we are proud of our commitment to assist in stopping the spread of the virus and have invested much time and resources to ensure that the necessary precautions were taken and protective measures put in place to enhance the safety of our employees, customers and service providers.

As a consequence of the pandemic, many financial institutions were forced to revisit their conventional mode of conducting business. Therefore, one of the positives emanating from the 2020 financial year has been the digitisation of various institutions.

In some ways, the fourth industrial revolution (digital revolution) was said to be at its peak during this pandemic. Al Baraka Bank also made great strides in terms of its digital journey during the review period, which included new processes to on-board clients digitally.

Due to rapid digitisation, there has been an increased focus on cyber-security within the financial services sector, especially in terms of minimising the increasing risks resulting from the majority of employees working remotely from home.

In addition, some of the key regulatory considerations for 2020 for the banking industry related to the implementation of the Conduct of Financial Institutions Bill, Conduct Standards for Banks and the Protection of Personal Information Act.

The Conduct of Financial Institutions Bill received intensive focus during the year. Financial institutions previously provided comments on the Bill to National Treasury and the Financial Sector Conduct Authority. There were also various consultations held with National Treasury and the Financial Sector Conduct Authority in order to discuss the Bill and any concerns that the financial services industry had in this regard.

The industry is now awaiting the Conduct of Financial Institutions Bill being signed into law and implemented. This Bill provides the framework for the market conduct regulation of financial institutions by the Financial Sector Conduct Authority and empowers this body to strengthen consumer protection within the industry.

Another piece of legislation linked to the Conduct of Financial Institutions Bill is the Conduct Standard for Banks, which was published by the Financial Sector Conduct Authority in July 2020. The Conduct Standard for Banks creates a comprehensive market conduct regulatory framework for the banking sector.

The objective of the Conduct Standard is to introduce requirements which promote the fair treatment of financial customers of banks. Such fair treatment requires banks to achieve six defined outcomes and in order to achieve such outcomes, the Conduct Standard sets out prescribed parameters which must be adhered to by a bank.

Another Act that has had a significant impact on institutions is the Protection of Personal Information Act, commonly referred to as POPIA.

This legislation is designed to protect any personal information processed by both private and public bodies. This Act became effective on 1 July 2020. The bank has an established plan in place to be fully-compliant with the requirements of POPIA.

"AL BARAKA BANK ADHERES STRINGENTLY TO SHARIAH AND WE APPLY A HARD-LINE REGARDING ETHICAL BANKING. THIS AFFORDS OUR CLIENTS THE PEACE-OF-MIND THAT ALL THEIR INTERESTS ARE MANAGED BY US TO THE HIGHEST ETHICAL STANDARDS."

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

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

The compliance department also works in harmony with other assurance providers, so as to ensure appropriate observance of corporate governance by the bank. This gives effect to a combined assurance model, which is in line with the requirements of King IV. Representatives of the compliance department also serve on a range of strategic forums and committees, whilst providing guidance to the board and our management team in terms of regulatory and reputational risk matters.

The bank continues to impose a zero tolerance policy in terms of non-compliance with any legislation. Errant members of staff face severe and strict disciplinary measures being taken against them, especially in the case of repeat offenders. Compliance plays a critical role in identifying regulatory non-compliance and reporting same to relevant management and the board.

The compliance department also actively engages with the various committees of the Banking Association South Africa, the South African Banking Risk Identification Centre (SABRIC) and other ad hoc committees, thus affording the bank the opportunity to make an impact on regulatory reform affecting the industry and country.

The bank maintains a strict balance between staunch compliance to laws and regulations and the needs and desires of clients, with customer satisfaction being at the core of the bank's objectives. The compliance department constantly strives to maintain a strong compliance culture within the organisation, which is proudly driven from the very top of the bank and is entrenched in the foundation upon which we stand. Al Baraka Bank adheres stringently to Shariah and we apply a hard-line regarding ethical banking. This affords our clients the peace-of-mind that all their interests are managed by us to the highest ethical standards. The bank is driven by these values, ensuring that our organisation grows ever stronger and provides increasing value to our customers year-on-year.

SHARIAH REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

IN THE NAME OF ALLAH, THE ALL COMPASSIONATE, THE MOST MERCIFUL

To the shareholders of Al Baraka Bank

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 in terms of the Shariah Standards issued 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 Internal Shariah Audit Function, 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:
1. Murabaha Financing;
2. Musharaka Financing;
3. Ijarah Financing;
4. Equity Murabaha Transactions;
5. ABL Sukuk;
6. Islamic Wills and Administration of Estates;
7. Profit Distribution;
8. Management Accounts;
9. Disposal of Impermissible Income;
10. Calculation of Zakah;
11. FOREX Transactions; and
12. 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 addition, an Independent External Shariah Compliance audit was conducted which assessed the effectiveness of the bank's Shariah Governance Framework and related controls.

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;
5. Zakah of the bank was calculated at 49 cents per share. Shareholders are advised to discharge this Zakah individually, as the bank is not mandated to discharge this on their behalf; and
6. The bank has an effective Shariah Governance Framework that comprises Shariah Advisory, Internal Shariah Audit, External Shariah Audit and the Shariah Supervisory Board, which ensures that the bank complies with Shariah.

Note: The former Chairman of the Shariah Supervisory Board, Dr Abdus Sattar Abu Ghuddah, passed away on 23 October 2020.

May Allah SWT accept his services and grant him the highest stages in Paradise. Dr Abdus Sattar Abu Ghuddah is being replaced by Shaykh Yousef Hassan Khalawi.

WE BEG THE ALMIGHTY TO GRANT US ALL SUCCESS IN THIS WORLD AND THE HEREAFTER.

Shaykh Mahomed Shoaib Omar
Chairman

Mufti Shafique Ahmed Jakhura
Member

Mufti Zubair Bayat
Member

28 January 2021

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

SHAYKH MAHOMED SHOAIB OMAR

Shaykh Mahomed Shoaib Omar serves as chairman 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 36 years he has collaborated with Mufti Taqi Usmani in solving problems affecting Contemporary Applications in Islamic Law.

He has, for the past 18 years, also worked closely with well-known contemporary Shariah expert, Shaykh Abdus Sattar Abu Ghuddah, 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 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.

THE APPOINTMENT OF AN INDEPENDENT SHARIAH SUPERVISORY BOARD TO SUPERVISE THE BANK AND THE SHARIAH FUNDS IS INDICATIVE OF AL BARAKA BANK'S ABSOLUTE COMMITMENT TO OPERATE IN CONFORMITY TO ISLAMIC ECONOMIC PRINCIPLES AS DERIVED FROM SHARIAH LAW.

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 in 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 investors to participate in socially 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 Customised Solutions

MEMBERS OF THE SHARIAH SUPERVISORY BOARD

The former Chairman of the Shariah Supervisory Board, Dr Abdus Sattar Abu Ghuddah, passed away on 23 October 2020. May Allah SWT accept his services and grant him the highest stages in Paradise.

Shaykh Mahomed Shoaib Omar
Mufti Zubair Bayat
Mufti Shafique Ahmed Jakhura

SUB-COMMITTEE OF THE SHARIAH SUPERVISORY BOARD

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

The Shariah Supervisory Board meets at least once annually and the Sub-committee meets at least four times a year. The Shariah Supervisory Board has appointed a sub-committee to review and ensure that all investments made by the funds comply with its directives, which are issued in line with the applicable Shariah principles, as set out by AAOIFI, and to report to the Shariah Supervisory Board. The appointment of an independent Shariah Supervisory Board to supervise the bank and the Shariah funds is indicative of Al Baraka Bank's absolute commitment to operate in conformity to Islamic economic principles as derived from Shariah Law.

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NATURE OF BUSINESS
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

The financial statements of Albaraka Bank Limited have been audited in compliance with S30 of the Companies Act of South Africa.

Sumeshion Chetty CA (SA), General Manager: Finance and Zaakirah Nabee of Albaraka Bank Limited were responsible for the preparation of the financial statements.

CONTENTS

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 statements of financial position as at 31 December 2020 and the statements of profit or loss and other comprehensive income, the statements of changes in shareholders' equity and statements 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 91 were approved by the board of directors on 12 March 2021 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
12 March 2021

AUDIT
COMMITTEE REPORT

During the financial year ended 31 December 2020, the audit committee convened five times to discharge both its statutory and board responsibilities. As an overview only, and not to be regarded as an exhaustive list, the committee carried out the following duties:

Annual financial statements
The committee has evaluated the group annual financial statements. Amongst others, the committee:
- Reviewed the principles, policies and accounting practices and standards adopted in the 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 24 June 2021.

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 Al Baraka 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;
- Reviewed Ernst & Young Inc's Terms of Engagement, as well as the quality and effectiveness of the external audit process and evaluated the independence of the external auditors;
- 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 12 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 the finance department have the appropriate expertise and experience required for the finance function.

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YGH Suleman
Chairman of the Audit Committee
12 March 2021

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

TO THE SHAREHOLDERS OF ALBARAKA BANK LIMITED

Report on the Audit of the Consolidated and Separate Financial Statements

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 34 to 91, which comprise the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in shareholders' equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

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 2020, 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 Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) 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 in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits of the group and company and in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International 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). 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 2020, 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; and
- 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 12 years.

Ernst & Young Inc

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

12 March 2021
Durban

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

THE DIRECTORS HAVE PLEASURE IN PRESENTING THEIR REPORT FOR THE YEAR ENDED 31 DECEMBER 2020.

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 (2019: 100 million) ordinary shares of R10 each, amounting to R1 billion (2019: R1 billion). The issued share capital of the company comprises 32,2 million (2019: 32,2 million) ordinary shares of R10 each, amounting to R322,4 million (2019: R322,4 million).

Financial results

The results of the group and the company for the year ended 31 December 2020 are set out on pages 34 to 91.

Dividends

Nil dividends were declared in the 2020 financial year (2019: 55 cents per share). This decision, made by the board of directors, was based on the impact of COVID-19 on the financial results of the group.

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. The bank has in issue a R307,7 million Tier 2 sukuk as at 31 December 2020. An application has been made with the Prudential Authority for approval for the bank to issue a Tier 1 sukuk instrument in 2021.

Impact of COVID-19 on group results

During the 2020 financial year, the banking industry was significantly impacted by the COVID-19 pandemic, mainly due to the reducing rates, lower demand for financing activities and increases in credit provisions. This resulted in the bank's overall performance being negatively affected.

The volatile nature of the economic environment led to a shift in customer behaviour resulting in lower demand for advances and an increase in liquidity in the form of deposits from customers, mainly due to customers adopting a cautious approach to new investments in the market, based on the current climate.

As a result, the bank continued to improve its liquidity position with growth of R1,3 billion or 20,3% in deposit-taking activities for the 2020 financial year. The advances book decreased by 3,7% or R194,5 million, owing to the reduced demand and negative investment sentiment in the country.

The growth in the deposit book, coupled with the lack of demand in the advances business, resulted in excess funds being available. These surplus funds and existing cash holdings were invested in Shariah-compliant equity finance and Mudaraba transactions, resulting in a notable increase in advances to banks of R1,6 billion or 137,1% for the year.

The pandemic led to a significant impact on credit provisions, which increased by R20,69 million or 121,6% for the 2020 period.

Income earned from advances to customers decreased by 6,7% or R33,2 million, owing to the drop in profit rates, coupled with the lower demand for finance.

Whilst the growth equity finance and Mudaraba transactions increased by R1,6 billion or 137,1%, these returns were negatively impacted by the lower profit rates, resulting in income earned from advances to banks to increase by only 5,0% or R4,8 million.

Taking the above into consideration and after profit sharing with depositors and sukuk holders, the bank's net income from financing activities decreased by R25,0 million or 8,4% for 2020.

Income from non-financing activities, being foreign exchange, unit trust sales, electronic banking fees and other fee income, decreased year-on-year based on reduced demand created by the pandemic. In particular, forex sales shrank by 82,1% or R7,6 million as a result of the lockdown regulations, which imposed strict travel restrictions for most of the 2020 financial year.

Operating expenditure increased by R13,7 million or 5,6% year-on-year driven largely by higher employment costs, computer expenditure and additional depreciation as a result of new capital projects implemented during the preceding 12 months, mainly the introduction of a new core banking system in the 2020 financial year.

The group achieved a net profit after tax of R36,1 million, an inevitable decrease of R38,3 million or 51,5% compared against 2019. This resulted in basic and diluted earnings per share also decreasing by 51,5% from 230,7 cents to 111,97 cents for the period.

In light of pandemic the Prudential Authority allowed banks a relaxation in the capital adequacy minimum regulatory ratio requirement from 9% to 8%, which was still applicable as at 31 December 2020.

As mentioned previously, due to COVID-19 the deposit book grew substantially resulting in excess funds being placed with other banks. Based on these placements, the bank's risk weighted assets grew. The low profits achieved from both funding and non-funding income resulted in a reduction in capital reserves. Accordingly, the bank's capital adequacy ratio was negatively impacted. The sukuk issuance which took place in 2019, however, provided the excess in capital required.

Events after the reporting period

There are no material adjusting events after the financial period that requires reporting. The directors are aware that the effects of the Coronavirus pandemic may continue to follow through and influence the results for the 2021 financial year. Management and the board continue to consider the impact of this risk.

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
MS Paruk CA(SA)		
F Kassim	(Sri Lankan)	Resigned on 31 March 2020
A Lambat CA(SA)		Resigned on 31 March 2020
MJD Courtiade CA(SA)	(French)	

Independent non-executive

YGH Suleman CA(SA)	Lead independent director
Adv JMA Cane SC	
ZH Fakey CA(SA)	
SM Nyasulu	Appointed on 1 April 2020

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 Kingsmead Office Park Stalwart Simelane Street Durban 4001	PO Box 4395 Durban 4000

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

		GROUP		COMPANY	
		2020	2019	2020	2019
	Notes	R'000	R'000	R'000	R'000
Assets					
Property and equipment	3	**105 286**	116 502	**25 051**	34 288
Right of use asset	4	**8 631**	13 698	**24 845**	34 139
Investment properties	5	**10 339**	10 339	**-**	-
Intangible assets	6	**67 264**	56 366	**67 264**	56 366
Investment in and amount due by subsidiary company	7	**-**	-	**31 117**	20 200
Deferred tax asset	8	**-**	-	**18 648**	27 311
Investment securities	9	**25 918**	25 723	**25 918**	25 723
Advances and other receivables	10	**7 902 172**	6 521 694	**7 901 953**	6 521 495
South African Revenue Service	11	**-**	1 792	**14**	1 714
Regulatory balances	12	**355 715**	398 883	**355 715**	398 883
Cash and cash equivalents	13	**198 828**	218 362	**193 823**	214 315
Total assets		**8 674 153**	7 363 359	**8 644 348**	7 334 434
Equity and liabilities					
Equity					
Share capital	14	**322 403**	322 403	**322 403**	322 403
Share premium	14	**82 196**	82 196	**82 196**	82 196
Other reserves		**1 751**	1 753	**1 751**	1 753
Retained income		**400 344**	364 246	**387 667**	342 294
Shareholders' interests		**806 694**	770 598	**794 017**	748 646
Liabilities					
Welfare and charitable funds	15	**21 917**	25 807	**21 917**	25 807
Accounts payable	16	**72 005**	48 605	**68 152**	44 071
Lease liabilities	4	**10 079**	14 758	**10 079**	14 758
Deferred tax liability	8	**10 104**	2 278	**-**	-
South African Revenue Service	17	**1 505**	383	**1**	178
Provision for leave pay	18	**8 936**	11 348	**8 936**	11 348
Deposits from customers	19	**7 433 546**	6 180 299	**7 433 546**	6 180 299
Sukuk holders/Albaraka Sukuk Trust	20	**309 367**	309 283	**307 700**	309 327
Total liabilities		**7 867 459**	6 592 761	**7 850 331**	6 585 788
Total equity and liabilities		**8 674 153**	7 363 359	**8 644 348**	7 334 434

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

		GROUP		COMPANY	
		2020	2019	**2020**	2019
	Notes	**R'000**	R'000	**R'000**	R'000
Income earned from advances		**462 794**	496 029	**462 794**	496 029
Income earned from equity finance		**84 747**	84 678	**84 747**	84 678
Income earned from Mudaraba deposits		**16 808**	12 084	**16 808**	12 084
Gross income earned		**564 349**	592 791	**564 349**	592 791
Income paid to depositors	21	**(245 117)**	(272 588)	**(245 118)**	(272 587)
Income paid to sukuk holders/Albaraka Sukuk Trust	22	**(24 360)**	(19 667)	**(24 271)**	(19 538)
Net income before credit loss expense		**294 872**	300 536	**294 960**	300 666
Credit loss expense	10	**(21 385)**	(2 099)	**(21 385)**	(2 099)
Net income after credit loss expense		**273 487**	298 437	**273 575**	298 567
Net non-Islamic income	23	**-**	-	**-**	-
Fee and commission income	24	**35 339**	46 252	**35 607**	46 507
Other operating income	25	**2 515**	3 914	**18 811**	10 274
Net income from operations		**311 341**	348 603	**327 993**	355 348
Operating expenditure	26	**(258 793)**	(245 097)	**(261 299)**	(247 526)
Finance costs	4	**(1 128)**	(1 366)	**(9 084)**	(10 180)
Profit before taxation		**51 420**	102 140	**57 610**	97 642
Taxation	27	**(15 322)**	(27 770)	**(12 237)**	(24 448)
Profit after tax for the year attributable to equity holders		**36 098**	74 370	**45 373**	73 194
Other comprehensive income					
Items not subsequently reclassified to profit and loss					
Fair value profit/(loss) net of tax	28	**(2)**	877	**(2)**	877
Total comprehensive income for the year, net of tax, attributable to equity holders		**36 096**	75 247	**45 371**	74 071
Weighted average number of shares in issue ('000)		**32 240**	32 240		
Basic and diluted earnings per share (cents)	29	**111,97**	230,7		

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Share capital R'000	Share premium R'000	Other reserves R'000	Retained income R'000	Shareholders' interest R'000
Group						
2020						
Balance at beginning of year		**322 403**	**82 196**	**1 753**	**364 246**	**770 598**
Profit after tax		**-**	**-**	**-**	**36 098**	**36 098**
Dividends declared	30	**-**	**-**	**-**	**-**	**-**
Other comprehensive income	28	**-**	**-**	**(2)**	**-**	**(2)**
Balance at end of year		**322 403**	**82 196**	**1 751**	**400 344**	**806 694**
2019						
Balance at beginning of year		322 403	82 196	876	307 608	713 083
Profit after tax		-	-	-	74 370	74 370
Dividends declared	30	-	-	-	(17 732)	(17 732)
Other comprehensive income	28	-	-	877	-	877
Balance at end of year		322 403	82 196	1 753	364 246	770 598
Company						
2020						
Balance at beginning of year		**322 403**	**82 196**	**1 753**	**342 294**	**748 646**
Profit after tax		**-**	**-**	**-**	**45 373**	**45 373**
Dividends declared	30	**-**	**-**	**-**	**-**	**-**
Other comprehensive income	28	**-**	**-**	**(2)**	**-**	**(2)**
Balance at end of year		**322 403**	**82 196**	**1 751**	**387 667**	**794 017**
2019						
Balance at beginning of year		322 403	82 196	876	286 832	692 307
Profit after tax		-	-	-	73 194	73 194
Dividends declared	30	-	-	-	(17 732)	(17 732)
Other comprehensive income	28	-	-	877	-	877
Balance at end of year		322 403	82 196	1 753	342 294	748 646

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

		GROUP		COMPANY	
		2020	2019	**2020**	2019
	Notes	**R'000**	**R'000**	**R'000**	**R'000**
Cash flow from operating activities					
Cash generated from operations	31.1	**38 776**	74 639	**28 547**	65 461
Changes in working capital	31.2	**(19 520)**	(52 031)	**(18 880)**	(55 692)
Taxation paid	31.3	**(8 591)**	(36 072)	**(6 043)**	(33 960)
Dividends paid	31.4	**(77)**	(17 590)	**(77)**	(17 590)
Net cash flow from operating activities		**10 588**	(31 054)	**3 547**	(41 781)
Cash flow from investing activities					
Purchase of property and equipment	31.5	**(1 834)**	(13 238)	**(1 834)**	(13 301)
Purchase of intangible assets	31.6	**(24 200)**	(27 276)	**(24 200)**	(27 276)
Purchase of investment securities	9	**(79)**	(191)	**(79)**	(191)
Proceeds from disposal of property and equipment		**-**	592	**-**	592
Dividend income	25	**1 139**	1 619	**18 139**	8 619
Increase in investment in and amount due by subsidiary		**-**	-	**(10 917)**	(52)
Net cash utilised in investing activities		**(24 974)**	(38 494)	**(18 891)**	(31 609)
Cash flow from financing activities					
Settlement of lease liabilities - capital and deemed interest	4	**(5 807)**	(4 138)	**(5 807)**	(4 138)
Net cash utilised in financing activities		**(5 807)**	(4 138)	**(5 807)**	(4 138)
Net (decrease)/increase for the year		**(20 193)**	(73 686)	**(21 151)**	(77 528)
Net foreign exchange difference on cash on hand		**659**	(3 064)	**659**	(3 064)
Cash and cash equivalents at beginning of year		**218 362**	295 112	**214 315**	294 907
Cash and cash equivalents at end of year	13	**198 828**	218 362	**193 823**	214 315

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 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 (IASB).

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 in the intercompany lease, 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 (refer note 4);

- In determining the lease liability under IFRS16 the bank applies an incremental borrowing rate, which is linked to the prime rate applicable at inception, 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. (refer note 4);

- In determining the lease term for lease contracts with renewal and termination options, the bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The bank has lease contracts that include extension and termination options. Judgement is applied to evaluate whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. The bank considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the bank reassesses the lease term for any significant event or change in circumstance that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate. (refer note 4);

- 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. (refer note 8); and

- 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 macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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. The bank embarked on recalibration of the model in the 2020 year to take into account the most recent activity in the advances portfolio, which considers arrears and payment performance. The bank re-assessed economic variables, which are input assumptions that were more aligned to the behaviour of the advances portfolio.

A forecast macroeconomic 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.

The ECL mainly increased as a result of payment deferments provided to clients who were negatively impacted by the effects of COVID-19. This required active and ongoing engagement with clients, in order to understand the challenges being faced providing relief where required.

New and amended standards and interpretations effective 01 January 2020 (unless stated otherwise)

The following amendments and interpretations apply for the first time in 2020, but do not have an impact on the bank's consolidated financial statements.

- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7;
- Definition of Material – Amendments to IAS 1 and IAS 8;
- Definition of a Business – Amendments to IFRS 3;
- COVID-19-Related Rent Concessions – Amendment to IFRS 16 (effective 01 June 2020); and
- The Conceptual Framework for Financial Reporting.

The bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective (refer note 37).

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the bank and its subsidiaries as at 31 December 2020 including controlled structured entities.

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. Equity instruments are not subject to impairment under IFRS 9. 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 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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 is 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 gross 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 asset cures and is no longer credit-impaired, the bank reverts to calculating profit on a gross basis and any adjustment previously not recognised in income is taken to bad debts recovered.

Impairment of financial assets:

The calculation of expected credit losses

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

- **Probability of default (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; and

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

Stage 2:
When an advance has shown a significant increase in credit risk since origination, the bank records an allowance for the Lifetime 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 short falls are discounted by an approximation to the original EPR.

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

Expected Credit Losses (ECLs) for interbank placements and sovereign exposure is derived by using the following methodology:

Exposure at default (EAD) is the total amount owing to the bank as at the ECL calculation date, including any accrued profits.
Loss given default (LGD) is based on the requirement of the Basel foundational approach of 45%.

Probability of Default (PD) is derived by obtaining the Standard & Poor's (S&P) credit rating as at the date of the ECL calculation and mapping that to the 1 year (12 month) PD as provided by S&P.

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-weight in one 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 is 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 is 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 2 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 range of forward looking information as economic inputs, such as:

- GDP growth;
- Debt to disposable income;
- Housing Price Index; and
- Unemployment.

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 data provided by third parties such as mortgage brokers or 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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/macroeconomic information

Three macroeconomic scenarios (base, optimistic and downturn) have been defined based on the expectation of future macroeconomic 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 macroeconomic 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 represent 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 (for 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 excluding the costs of day–to–day servicing less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. 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, computer software, and leasehold improvements are depreciated on a straight-line basis over the estimated useful lives of the asset. Land is not depreciated. The estimated useful lives are as follows:

Buildings – Owned	50 years
Equipment	4 - 10 years
Vehicles	5 - 8 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.

Changes in the expected useful life are accounted for by changing the depreciation period or methodology, as appropriate, and is treated as changes in accounting estimates.

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.

7. IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the group's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that are independent from other assets and groups. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in profit for the year in the statement of profit or loss and other comprehensive income whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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 is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. See note 34.6: 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; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted at the reporting date. These can be offset if legally enforceable and relates to the same tax entity and authority.

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

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;

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

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 implements a single accounting model, requiring lessees to recognise 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 recognises 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 digitalisation, 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

Right-of-use assets are initially measured at cost. The cost of the right-of-use asset shall comprise the initial measurement of the lease liability adjusted by the amount of any lease payments made relating to that lease at or before the commencement date less any lease incentives, any initial direct costs incurred as well as an estimate of dismantling costs to be incurred. After the commencement date, the right-of-use assets are

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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 as follows:

Buildings – Leased	15 years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. 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. 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; and
- 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.

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 are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible assets.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit and loss when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognised as an intangible asset when the group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

1. CAPITAL ADEQUACY

Introduction

Albaraka Bank Limited, is a registered bank domiciled in South Africa and is subject to regulatory capital adequacy requirements under Basel III in terms of the Banks Act, No. 94 of 1990, as amended and Regulations relating thereto.

The bank has 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

	2020	2019
	R'000	**R'000**
Tier 1		
Share capital	**322 403**	322 403
Share premium	**82 196**	82 196
Retained income	**387 667**	342 295
Less: unappropriated profits	**(19 632)**	(24 582)
Unrealised gains and losses on fair value through other comprehensive income items net of tax	**1 751**	1 752
Total capital & reserves	**774 385**	724 064
Less: Prescribed deductions against capital and reserve funds	**(59 850)**	(53 594)
Total Tier 1 capital	**714 535**	670 470
Tier 2		
Stage 1 and stage 2	**16 639**	8 783
Sukuk	**307 700**	307 700
Total eligible capital	**1 038 874**	986 953
Capital adequacy ratios (Tier 1 %)	**11,88%**	10,9%
Capital adequacy ratios (Total %)	**17,27%**	16,0%
Base minimum regulatory requirement ratios (Total %)	**8,00%**	9,00%

The sukuk has been approved by the South African Reserve Bank as a qualifying Tier 2 capital instrument.
Due to COVID-19, the minimum regulatory requirement ratio has been reduced to 8% for the year.

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 2020, 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:

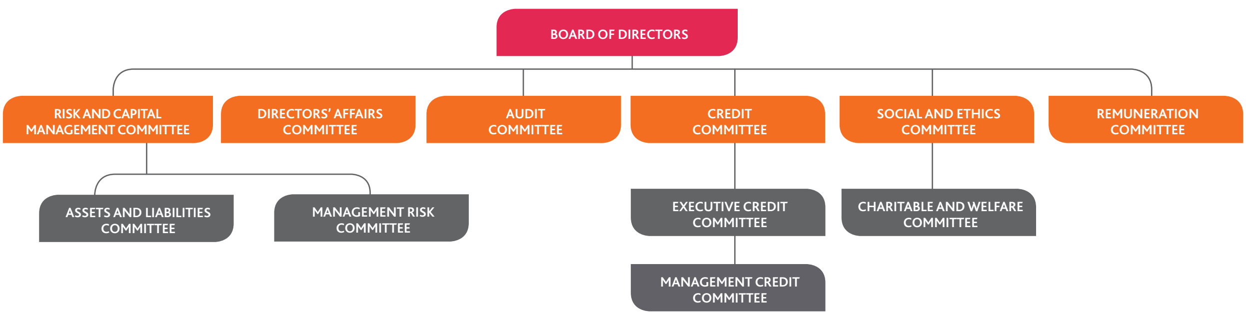
	CAPITAL REQUIREMENTS		RISK-WEIGHTED ASSETS	
	2020	2019	**2020**	2019
	R'000	R'000	**R'000**	R'000
Credit risk	**407 954**	468 754	**5 099 427**	5 208 376
Operational risk	**51 820**	55 825	**647 745**	620 278
Equity risk	**2 073**	2 315	**25 918**	25 723
Market risk	**2 594**	2 442	**32 421**	27 133
Other risk	**16 742**	24 287	**162 658**	269 855
	481 183	553 623	**5 968 169**	6 083 090

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 six board committees, namely, the risk, capital management and compliance committee, the audit committee, the credit committee, the directors' affairs committee, the social and ethics committee and remuneration 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, 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 Albaraka 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Major risks

The following are the major forms of risks to which the bank is exposed:

- Credit risk;
- Market risk;
- Equity risk;
- Liquidity risk;
- Profit rate risk;
- Shariah risk;
- Operational risk;
- Reputational risk; and
- Compliance Risk.

2.1 Credit risk

Credit risk refers to the potential loss that the bank could sustain as a result of counter-party default and arises principally from advances to customers and other banks.

The bank manages its credit risk within a governance structure supported by delegated powers of authority as approved by the board. The credit approval process is graduated, whereby increasingly higher levels of authorisation are required depending on the type and value of the transactions concerned. Applications for credit may therefore be considered progressively by line management, senior and executive management, the management credit committee, the executive credit committee, the board credit committee and the board itself.

A separate credit division, reporting to the chief executive and the credit committee of the board, is responsible for the oversight of the bank's credit risk, including:

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk;
- Limiting concentrations of exposure to counter-parties and by product; and
- Developing and maintaining risk gradings in order to categorise exposures to the degree of risk of financial loss faced and to focus management on the relevant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework is described under the section dealing with portfolio measures of risk.

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

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

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

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

The executive and board credit committees constantly monitor the credit quality of counter-parties and the exposure to them. Detailed risk reports are submitted to the aforementioned committees and 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 10 – 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.

COVID-19-related credit exposures

- The bank applied Directive 03/2020 that was issued by the Prudential Authority with effect from 06 April 2020 for granting clients relief for 3 months from repayments;
- For restructured deals prior to 06 April 2020 or deals not meeting the requirements of Directive 03/2020, deals were restructured in accordance with Directive 07/2015 and the applicable impairments were raised via the IFRS 9 model;

- Clients that were not in arrears as at 29 February 2020 in accordance with the Directive 3/2020 were offered the option of payment deferments for 3 months in order to assist them during the lockdown. Clients were given the option of thereafter settling the arrears within a further 3 months or a purchase of equity in a property to settle the arrears; and
- There were no overlays applied to the IFRS 9 model.

A default is considered to have occurred with regard to a particular obligor when either of the following events have taken place:
- The bank considers that the obligor is unlikely to pay its credit obligations to the bank, without recourse by the bank to actions such as realising security (if held); and
- The obligor is past due more than 90 days on any material credit obligation to the bank.

GROUP AND COMPANY

	2020	2019
	R'000	**R'000**
Credit exposures		
Advances to customers	**5 112 727**	5 307 250
Advances and balances with banks	**2 837 395**	1 312 990
Advances, treasury bills and regulatory balances	**488 631**	457 635
Letters of credit, guarantees and confirmations	**513 145**	390 981
Total exposure	**8 951 898**	7 468 856
Provision for credit loss expense on advances to customers	**(35 816)**	(17 014)
Provision for credit loss expense on interbank and sovereign exposures	**(1 892)**	-
Total Provision for credit loss expense	**(37 708)**	(17 014)
Net exposure	**8 914 190**	7 451 842

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

Geographical distribution of exposures

Customer exposure		
KwaZulu-Natal	**2 976 326**	2 991 409
Gauteng	**1 641 111**	1 791 987
Western Cape	**1 008 435**	914 836
Total customer exposure	**5 625 872**	5 698 232
Bank exposure		
KwaZulu-Natal	**10 529**	11 694
Gauteng	**3 300 611**	1 749 634
United States of America	**14 886**	9 296
Total Bank exposure	**3 326 026**	1 770 624
Total exposure	**8 951 898**	7 468 856

Industry distribution of exposures

Banks and financial institutions	**3 326 026**	1 770 625
Individuals	**1 425 726**	1 485 778
Business and trusts	**4 200 146**	4 212 453
Total exposure	**8 951 898**	7 468 856

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

GROUP AND COMPANY

	2020 R'000	2019 R'000
Product distribution analysis		
Property (Musharaka and Murabaha)	**3 961 174**	4 014 661
Equity finance and Mudaraba deposits	**2 798 123**	1 180 011
Instalment sales	**636 748**	702 852
Trade	**511 058**	585 137
Balances with local and central banks	**527 903**	590 614
Letters of credit	**2 243**	2 334
Guarantees and confirmations	**510 902**	388 647
Other	**3 747**	4 600
Total exposure	**8 951 898**	7 468 856

Residual contractual maturity of book

		2020 R'000	2019 R'000
Within 1 month	- equity finance and Mudaraba deposits	**723 380**	50 079
	- other	**512 353**	637 629
From 1 to 3 months	- equity finance and Mudaraba deposits	**1 505 181**	140 262
	- other	**648 507**	562 106
From 3 months to 1 year	- equity finance and Mudaraba deposits	**452 607**	557 982
	- other	**939 388**	898 821
From 1 year to 5 years	- equity finance and Mudaraba deposits	**116 955**	431 688
	- other	**2 038 633**	2 033 140
More than 5 years	- other	**2 014 894**	2 157 149
Total exposure		**8 951 898**	7 468 856

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:

	GROUP AND COMPANY			
	Credit exposure	Collateral cover	Credit exposure	Collateral cover
	2020		2019	
	R'000	R'000	R'000	R'000
Standard asset	**3 831 252**	**3 248 495**	4 180 304	3 534 655
Special mention asset	**1 085 570**	**951 156**	1 045 132	961 920
Substandard asset	**108 281**	**98 357**	28 562	27 494
Doubtful asset	**43 482**	**34 483**	10 447	8 465
Loss asset	**44 142**	**41 946**	42 805	37 215
	5 112 727	**4 374 437**	5 307 250	4 569 749

The disclosure provided is in line with the information as submitted to the Regulator.

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

	GROUP AND COMPANY	
	2020	2019
	R'000	R'000
Past due and individually impaired		
- Individuals	**12 487**	8 121
- Business and trusts	**51 988**	22 283
	64 475	30 404
Past due but not impaired		
- Individuals	**315 703**	363 667
- Business and trusts	**709 743**	764 458
	1 025 446	1 128 125

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 R611,3 million (2019: R64,9 million). This includes an amount of R522,1 million which relates to COVID-19-related restructures that were provided as a relief to clients due to the pandemic.

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

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FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

GROUP AND COMPANY

	Less than 30 days		30 to 60 days		60 to 180 days		Greater than 180 days		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
Individuals	**208 051**	321 696	**44 848**	19 221	**40 910**	14 537	**21 894**	8 213	**315 703**	363 667
Business and trusts	**470 010**	675 722	**82 276**	47 815	**107 261**	25 358	**50 196**	15 563	**709 743**	764 458
	678 061	997 418	**127 124**	67 036	**148 171**	39 895	**72 090**	23 776	**1 025 446**	1 128 125

2.2. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate resulting in losses due to movements in observable market variables such as profit rates, exchange rates and equity markets. In addition to these and other general market risk factors, the risk of price movements specific to individual issuers of securities is considered market risk. Al Baraka Bank's exposure to market risk is limited in that the bank does not trade in marketable securities other than those that it is required to hold for liquid asset purposes, which are usually held to maturity and foreign currency, held in terms of its foreign exchange licence.

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

GROUP AND COMPANY

		2020	2019
		R'000	R'000
Assets held under interest rate risk	- Treasury bills	**227 355**	260 355
Assets held under exchange rate risk	- Foreign currency held	**32 421**	27 133
		259 776	287 488

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 is included in the amounts donated as per note 15.

2.3. Equity risk

Equity risk relates to the risk of loss that the bank would suffer due to material fluctuations in the fair values of equity investments. Equity risk in the case of Al Baraka Bank, relates to its 100% investment in Albaraka Properties Proprietary Limited, a property-owning subsidiary, whose sole assets are properties held in Athlone (Cape Town) and Kingsmead (Durban).

In addition the bank owns 52 000 shares in Kiliminjaro Investments Proprietary Limited, a property-holding company, as well as 1 000 shares in Earthstone Investments (Pty) Ltd, also a property-holding company and 160 000 shares in Ahmed Al Kadi Private Hospital Limited, a hospital that 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.

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 34.3 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;

NOTES TO THE FINANCIAL STATEMENTS
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- The compilation of board-approved delegated powers of authority;
- The compilation of a policies and procedures manual;
- The provision of staff training (including fraud awareness programmes) and ensuring that staff are well versed in the bank's policies and procedures;
- Implementing comprehensive security measures to protect the bank's staff and to safeguard the bank's assets; and
- The establishment of a comprehensive insurance programme to protect the bank against material losses that may arise.

2.8. 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.

2.9. Compliance Risk

Compliance risk covers regulatory and legal compliance risk. Compliance risk is the risk that the bank incurs resulting from financial or reputational risk through penalties or fines as a result of not adhering to applicable laws, rules and regulations as well as good market practice (including ethical standards). The bank's compliance function proactively seeks to enhance compliance risk management and the supporting control framework. The bank operates in a market where there is a significant level of regulatory changes, hence compliance risk is a key focus area of senior management. The compliance function monitors this risk through reference to metrics relevant to the bank, review of incident reports and assessments, results of regulatory assessments, and review of results of internal audit and external audit reports. Remediation of controls is conducted in a timely manner.

3. PROPERTY AND EQUIPMENT

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
Cost				
Land and buildings	**76 237**	76 237	**-**	-
Vehicles	**7 251**	7 251	**7 251**	7 251
Fittings, equipment and computers	**79 336**	74 174	**70 111**	64 947
Leasehold improvements	**21 163**	21 103	**20 455**	20 396
Capital work in progress	**40**	3 660	**41**	3 660
	184 027	182 425	**97 858**	96 254
Accumulated depreciation and impairment	**(78 741)**	(65 923)	**(72 807)**	(61 966)
Land and buildings	**-**	-	**-**	-
Vehicles	**(5 396)**	(4 479)	**(5 396)**	(4 479)
Fittings, equipment and computers	**(56 474)**	(47 153)	**(51 314)**	(43 853)
Leasehold improvements	**(16 871)**	(14 291)	**(16 097)**	(13 634)
Carrying amount	**105 286**	116 502	**25 051**	34 288

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
Land and buildings comprise the following commercial properties presented at their carrying amount as described below:				
1. Commercial property in Cape Town described as Erf no. 33983 Cape Town in extent 610 square metres independently valued at R19,0 million in 2018. The property was leased entirely to the bank. Commercial property comprises land and buildings at carrying amount.	**3 655**	3 655		
2. Commercial property in Durban described as Portion 6 of Erf 12445 Durban, Registration Division FU, Province of KwaZulu-Natal, in extent 3 316 square metres. The property is leased to the bank. The lease contains an initial non-cancellable period of ten years, starting from 2009, extendable by 5 years thereafter. The property was independently valued at R136,6 million in 2018. Commercial property comprises land at a cost of R3,5 million (2019: R3,5 million) and buildings thereon at a cost of R69,1 million (2019: R69,1 million).	**72 582**	72 582		
	76 237	76 237	**-**	-
Carrying amount at beginning of year	**76 237**	76 237	**-**	-
Additions	**-**	-	**-**	-
Depreciation	**-**	-	**-**	-
Carrying amount at end of year	**76 237**	76 237	**-**	-

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

The bank does not have any encumbered assets.

	Land and buildings	Vehicles	Fittings, equipment and computers	Leasehold improvements	Capital work in progress	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Movement in property and equipment: Carrying amount						
Group						
2020						
Cost at beginning of year	76 237	7 251	74 174	21 104	3 659	182 425
Accumulated depreciation at beginning of year	-	(4 479)	(47 153)	(14 291)	-	(65 923)
Net carrying amount at beginning of year	76 237	2 772	27 021	6 813	3 659	116 502
Additions	-	-	1 775	59	-	1 834
Transfers	-	-	3 619	-	(3 619)	-
Disposals	-	-	-	-	-	-
Assets written-off	-	-	-	-	-	-
Depreciation for the year	-	(917)	(9 553)	(2 580)	-	(13 050)
Net carrying amount at end of year	76 237	1 855	22 862	4 292	40	105 286
Cost at end of year	76 237	7 251	79 336	21 163	40	184 027
Accumulated depreciation at end of year	-	(5 396)	(56 474)	(16 871)	-	(78 741)
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)

	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						
2020						
Cost at beginning of year	-	7 251	64 947	20 396	3 660	96 254
Accumulated depreciation at beginning of year	-	(4 479)	(43 853)	(13 634)	-	(61 966)
Net carrying amount at beginning of year	-	2 772	21 094	6 762	3 660	34 288
Additions	-	-	1 775	59	-	1 834
Transfers	-	-	3 619	-	(3 619)	-
Disposals	-	-	-	-	-	-
Assets written-off	-	-	-	-	-	-
Depreciation for the year	-	(917)	(7 691)	(2 463)	-	(11 071)
Net carrying amount at end of year	-	1 855	18 797	4 358	41	25 051
Cost at end of year	-	7 251	70 111	20 455	41	97 858
Accumulated depreciation at end of year	-	(5 396)	(51 314)	(16 097)	-	(72 807)
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)

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

NOTES TO THE FINANCIAL STATEMENTS
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4. LEASES

The group is party to lease contracts solely for retail branch, corporate office and ATM sites.

Albaraka Bank Limited has entered into a 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 leases together with the present value of the net minimum lease payments are stated below. 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.

RIGHT OF USE ASSETS

	GROUP		
	Office building	ATM sites	Total
	R'000	R'000	R'000
2020			
Cost at beginning of year	18 432	325	18 757
Accumulated depreciation at beginning of year	(4 938)	(121)	(5 059)
Net carrying amount at beginning of year	13 494	204	13 698
Additions	-	-	-
Depreciation for the year	(4 946)	(121)	(5 067)
Net carrying amount at end of year	8 548	83	8 631
Cost at end of year	18 432	325	18 757
Accumulated depreciation at end of year	(9 884)	(242)	(10 126)
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)

	Office building	ATM sites	Total
	R'000	R'000	R'000
2020			
Cost at beginning of year	81 876	325	82 201
Accumulated depreciation at beginning of year	(47 941)	(121)	(48 062)
Net carrying amount at beginning of year	33 935	204	34 139
Additions	-	-	-
Depreciation for the year	(9 173)	(121)	(9 294)
Net carrying amount at end of year	24 762	83	24 845
Cost at end of year	81 876	325	82 201
Accumulated depreciation at end of year	(57 114)	(242)	(57 356)
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)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	Group and Company	Company Per Note 7 *	Company Total
	2020	2020	2020
	R'000	R'000	R'000
Lease liabilities			
Long-term portion of lease liabilities	**6 353**	**43 624**	**49 977**
Office building	6 331	43 624	49 955
ATM sites	22	-	22
Short-term portion of lease liabilities	**3 726**	**9 364**	**13 090**
Office building	3 645	9 364	13 009
ATM sites	81	-	81
Carrying amount of lease liabilities	**10 079**	**52 988**	**63 067**
As at 1 January 2020	**14 758**	**59 991**	**74 749**
Additions	-	-	-
Deemed interest	1 128	7 956	9 084
Payments	(5 807)	(14 959)	(20 766)
As at 31 December 2020	**10 079**	**52 988**	**63 067**

	2019	2019	2019
	R'000	R'000	R'000
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 lease recognised at the company level between the bank and Albaraka Properties Proprietary Limited is offset in note 7 against the intercompany loan account between the bank and the property company. Accordingly the total lease liability at the company level is R63,1 million (2019: R74,7 million) split between the investment in and amount due by subsidiary company: R53,0 million (2019: R60,0 million) and lease liability: R10,1 million (2019: R14,7 million) on the statement of financial position.

GROUP	Office building	ATM sites	Total
	R'000	R'000	R'000
Maturity analysis - contractual undiscounted cash flow of lease liability			
2020			
Less than one year	4 361	86	4 447
One to five years	6 942	22	6 964
	11 303	108	11 411

COMPANY	Office building	ATM sites	Total
	R'000	R'000	R'000
Less than one year	20 517	86	20 603
One to five years	59 973	22	59 995
	80 490	108	80 598

GROUP	Office building	ATM sites	Total
	R'000	R'000	R'000
2019			
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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
The following are the amounts recognised in profit or loss:				
Depreciation expense of right-of-use assets	**5 067**	5 059	**9 294**	9 289
Deemed interest expense on lease liabilities	**1 128**	1 366	**9 084**	10 180
*Expense relating to short-term leases	**-**	-	**1 443**	1 359
Total amount recognised in profit or loss	**6 195**	6 423	**19 821**	20 828

The bank and group had total cash outflows for leases of R5,8 million and R20,8 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.

*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 intercompany leases they eliminate on consolidation and are therefore only applicable at the company level.

5. INVESTMENT PROPERTIES

	GROUP	
	2020	2019
	R'000	**R'000**
Balance at beginning of year	**10 339**	10 339
Transfers	**-**	-
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 was 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.

	2020 R'000	2019 R'000
6. INTANGIBLE ASSETS		
Cost		
Computer software	**8 232**	3 603
Capitalised project costs	**72 400**	44 871
Capital work in progress	**2 003**	43 001
	82 635	91 475
Accumulated amortisation and impairment	**(15 371)**	(35 109)
Computer software	**(2 630)**	(1 697)
Capitalised project costs	**(12 741)**	(33 412)
	67 264	56 366

	Computer software R'000	Capitalised project costs R'000	Capital work in progress R'000	Total R'000
Movement in intangible assets: Carrying amount				
Group and Company				
2020				
Cost at beginning of year	3 603	44 871	43 001	91 475
Accumulated amortisation at beginning of year	(1 697)	(33 412)	-	(35 109)
Net carrying amount at beginning of year	1 906	11 459	43 001	56 366
Additions	4 629	8 076	11 495	24 200
Transfers	-	50 852	(50 852)	-
Disposals	-	-	-	-
Assets written-off	-	(1 266)	(1 641)	(2 907)
Amortisation for the year	(933)	(9 462)	-	(10 395)
Net carrying amount at end of year	5 602	59 659	2 003	67 264
Cost at end of year	8 232	72 400	2 003	82 635
Accumulated amortisation at end of year	(2 630)	(12 741)	-	(15 371)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	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

7. INVESTMENT IN AND AMOUNT DUE BY SUBSIDIARY COMPANY

Albaraka Properties Proprietary Limited is 100% (2019: 100%) owned by Albaraka Bank Limited.

The issued share capital of Albaraka Properties Proprietary Limited comprises 1 000 shares of R1 each (2019: 1 000 shares of R1 each).

	GROUP		COMPANY	
	2020	2019	2020	2019
	R'000	R'000	R'000	R'000
Shares at cost	-	-	1	1
Due by subsidiary	-	-	31 116	20 199
• Amounts owing by subsidiary	-	-	84 104	80 190
• Lease liability (note 4)	-	-	(52 988)	(59 991)
	-	-	31 117	20 200

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 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 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 intercompany lease for R7,96 million (2019: R8,8 million).

8. DEFERRED TAX (LIABILITY)/ASSET

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	R'000	**R'000**	R'000
Balance at beginning of year	**(2 278)**	(4 670)	**27 311**	23 685
Tax recognised in profit or loss	**(8 015)**	2 054	**(8 851)**	3 288
Tax recognised in other comprehensive income	**60**	(332)	**60**	(332)
Prior year overprovision recognised in profit or loss	**129**	709	**128**	709
IFRS 16 deferred tax adjustment	**-**	(39)	**-**	(39)
Balance at end of year	**(10 104)**	(2 278)	**18 648**	27 311
The deferred tax (liability)/asset comprises temporary differences arising on the following:				
Lease liability	**-**	-	**10 297**	11 074
Financial assets	**(990)**	(1 009)	**(990)**	(1 009)
Credit loss expense on advances	**(540)**	(386)	**(540)**	(386)
Leave pay provision	**2 502**	3 177	**2 502**	3 177
Portfolio impairment	**4 659**	2 459	**4 659**	2 459
Profit not paid to depositors	**2 088**	5 857	**2 088**	5 857
Other	**2 389**	2 302	**2 120**	2 295
Ijarah receivables	**7 982**	9 184	**7 982**	9 184
Prepaid expenses	**(548)**	(749)	**(537)**	(741)
Intangible assets, property and equipment	**(27 320)**	(22 796)	**(8 607)**	(4 282)
Fair value on investments	**(326)**	(317)	**(326)**	(317)
	(10 104)	(2 278)	**18 648**	27 311

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
9. INVESTMENT SECURITIES				
Unit trust investments				
Fair value at beginning of year	**9 534**	8 777	**9 534**	8 777
Additions at cost	**79**	191	**79**	191
Fair value gain/(loss)	**(67)**	566	**(67)**	566
Fair value at end of year	**9 546**	9 534	**9 546**	9 534
Unlisted investments				
Kiliminjaro Investment Proprietary Limited, at fair value	**5 130**	4 905	**5 130**	4 905
Earthstone Investments Proprietary Limited at fair value	**10 163**	10 167	**10 163**	10 167
Ahmed Al Kadi Private Hospital Limited at fair value	**1 079**	1 117	**1 079**	1 117
	25 918	25 723	**25 918**	25 723

The bank's investment in unit trusts comprise 454 321 units (2019: 450 273 units) in the Old Mutual Albaraka Equity Fund. The carrying value of this investment is R9,5 million (2019: R9,5 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 (2019: 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	
	2020	2019	**2020**	2019
	R'000	R'000	**R'000**	R'000
10. ADVANCES AND OTHER RECEIVABLES				
10.1. Sectoral analysis				
Advances to customers				
Property (Musharaka and Murabaha)	**3 961 174**	4 014 661	**3 961 174**	4 014 661
Instalment sale	**636 748**	702 852	**636 748**	702 852
Trade	**511 058**	585 137	**511 058**	585 137
Other	**3 747**	4 600	**3 747**	4 600
Gross advances to customers	**5 112 727**	5 307 250	**5 112 727**	5 307 250
Provision for credit loss expense	**(35 816)**	(17 014)	**(35 816)**	(17 014)
Net advances to customers after provisions	**5 076 911**	5 290 236	**5 076 911**	5 290 236
Advances to banks				
Gross equity finance and Mudaraba deposits	**2 798 123**	1 180 011	**2 798 123**	1 180 011
Provision for credit loss expense	**(1 892)**	-	**(1 892)**	-
Net advances to banks after provisions	**2 796 231**	1 180 011	**2 796 231**	1 180 011
Net advances	**7 873 142**	6 470 247	**7 873 142**	6 470 247
Other receivables	**29 030**	51 447	**28 811**	51 248
	7 902 172	6 521 694	**7 901 953**	6 521 495

Included under property are Musharaka advances amounting to R3,96 billion (2019: R4,01 billion). Included in other receivables is R18,7 million (2019: R20,2 million) receivable for the agreed sale of foreign currency.

	GROUP		COMPANY	
10.2. Maturity analysis				
Advances to customers				
Within 1 month	**197 578**	293 449	**197 578**	293 449
From 1 month to 3 months	**381 753**	378 201	**381 753**	378 201
From 3 months to 1 year	**685 688**	670 257	**685 688**	670 257
From 1 year to 5 years	**2 007 771**	1 993 805	**2 007 771**	1 993 805
More than 5 years	**1 839 937**	1 971 538	**1 839 937**	1 971 538
	5 112 727	5 307 250	**5 112 727**	5 307 250
Equity finance and Mudaraba deposits				
Within 1 month	**723 380**	50 079	**723 380**	50 079
From 1 month to 3 months	**1 505 181**	140 262	**1 505 181**	140 262
From 3 months to 1 year	**452 607**	557 982	**452 607**	557 982
From 1 year to 5 years	**116 955**	431 688	**116 955**	431 688
	2 798 123	1 180 011	**2 798 123**	1 180 011

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FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	GROUP		COMPANY	
	2020	2019	2020	2019
	R'000	R'000	R'000	R'000
10.3. Expected credit loss				
Advances to customers				
Stage 1	7 751	5 990	7 751	5 990
Stage 2	6 996	2 792	6 996	2 792
Stage 3	21 069	8 232	21 069	8 232
	35 816	17 014	35 816	17 014
Interbank and sovereign exposures				
Stage 1	1 892	-	1892	-
Total expected credit loss	37 708	17 014	37 708	17 014
10.4. Credit loss expense				
Charge to/(release of) impairment relating to Stage 3	12 838	3 490	12 838	3 490
Reversal of credit impaired profits and write-offs	1 302	(171)	1 302	(171)
Charge to/(release of) impairment relating to Stage 1 & 2	7 856	(1 048)	7 856	(1 048)
Bad debts recovered	(611)	(172)	(611)	(172)
	21 385	2 099	21 385	2 099

10.5. Gross carrying amount and ECL

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

	GROUP AND COMPANY			
	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
2020				
Expected credit loss				
Opening balance	5 990	2 792	8 232	17 014
Impact on stage classification	(1 630)	2 697	11 088	12 155
*Transfer out of stage 1	(2 357)	1 980	377	-
*Transfer out of stage 2	1 199	(1 427)	228	-
*Transfer out of stage 3	171	310	(481)	-
*Impact of stage transfers	(643)	1 834	10 964	12 155
Settlement/write-off of advances	(1 101)	(229)	(454)	(1 784)
New advances	6 384	1 736	2 203	10 323
Closing ECL	9 643	6 996	21 069	37 708

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
2020				
Exposure				
Gross carrying amount as at 1 January 2020	**5 373 306**	**1 033 286**	**80 669**	**6 487 261**
New financial assets	**2 844 763**	**428 118**	**20 645**	**3 293 526**
Transfers out of stage 1	**(245 935)**	**137 817**	**108 118**	**-**
Transfers out of stage 2	**511 019**	**(543 578)**	**32 559**	**-**
Transfers out of stage 3	**1 487**	**2 767**	**(4 254)**	**-**
Settlements	**(1 593 339)**	**(234 709)**	**(40 562)**	**(1 868 610)**
Written-off	**(56)**	**-**	**(1 270)**	**(1 326)**
Gross carrying amount as at 31 December 2020	**6 891 245**	**823 701**	**195 905**	**7 910 851**
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
2019				
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

*Transfers out of stages 1, 2 and 3 represent the ECL of deals that have moved to a different stage from the prior year, at their original ECL value (this excludes the impact of a change in PD, LGD and EAD). Impact of stage transfers represent the changes in PD, LGD and EAD, as a result of updated model assumptions and transfers between stages.

NOTES TO THE FINANCIAL STATEMENTS
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GROUP AND COMPANY

10.6. Product exposure by stage

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
Exposure				
2020				
Legal charges	**-**	**-**	**1 230**	**1 230**
Ijarah motor vehicle	**45 076**	**-**	**802**	**45 878**
Musharaka commercial	**1 782 882**	**173 834**	**93 748**	**2 050 464**
Murabaha equipment	**178 352**	**34 573**	**17 932**	**230 857**
Murabaha property	**1 927**	**730**	**-**	**2 657**
Murabaha motor vehicle	**338 584**	**13 901**	**7 529**	**360 014**
Musharaka residential	**1 513 583**	**329 318**	**67 669**	**1 910 570**
Murabaha trade	**232 718**	**271 345**	**6 995**	**511 058**
Equity finance	**2 798 123**	**-**	**-**	**2 798 123**
Total exposure	**6 891 245**	**823 701**	**195 905**	**7 910 851***
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*

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

10.7. 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 table opposite depicts the past due status of financial assets assessed for significant increase in credit risk since initial recognition.

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
Past due status				
2020				
<1 day	6 197 751	567 495	14 592	6 779 678
Transfers from stage 1	-	55 684	41 668	97 352
1-30 days	693 494	69 833	1 706	765 033
Transfers from stage 1	-	19 227	12 489	31 716
31-60 days	-	30 772	4 083	34 855
Transfers from stage 1	-	23 183	1 190	24 373
61-90 days	-	42 220	866	43 086
Transfers from stage 1	-	15 287	4 635	19 922
90+ days	-	-	62 297	62 297
Transfers from stage 1	-	-	31 164	31 164
Transfers from stage 2	-	-	21 215	21 215
	6 891 245	823 701	195 905	7 910 851

The stage transitions during the year were from stage 1 to 2: R113,4 million; from stage 1 to 3: R91,2 million and from stage 2 to 3: R21,2 million.

	Stage 1	Stage 2	Stage 3	Total
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.

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	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
11. SOUTH AFRICAN REVENUE SERVICE RECEIVABLE				
Income tax	**-**	1 792	**14**	1 714
	-	1 792	**14**	1 714
12. REGULATORY BALANCES				
Government and other stock	**227 355**	260 355	**227 355**	260 355
Balances with Central Bank	**128 360**	138 528	**128 360**	138 528
	355 715	398 883	**355 715**	398 883

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

13. CASH AND CASH EQUIVALENTS				
Cash on hand	**26 641**	26 631	**21636**	22 584
Balances with Central Bank	**132 916**	58 752	**132 916**	58 752
Placements with other banks	**39 271**	132 979	**39 271**	132 979
	198 828	218 362	**193 823**	214 315
The following banking facilities are available to the group:				
Settlement facilities	**74 983**	71 474	**74 983**	71 474
	74 983	71 474	**74 983**	71 474

Settlement facilities of $5,1 million are held with ABSA Bank in respect of Foreign Exchange Contracts.

14. SHARE CAPITAL AND SHARE PREMIUM				
100 000 000 (2019: 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 (2019: 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	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**

15. WELFARE AND CHARITABLE FUNDS

Gross income from non-Islamic activities during the year (note 23)	**18 374**	22 645	**18 374**	22 645
Normal tax thereon	**(4 209)**	(2 715)	**(4 209)**	(2 715)
Net income from non-Islamic activities during the year	**14 165**	19 930	**14 165**	19 930
Donations and advances	**(18 055)**	(14 154)	**(18 055)**	(14 154)
Balance at beginning of year	**25 807**	20 031	**25 807**	20 031
Balance at end of year	**21 917**	25 807	**21 917**	25 807

16. ACCOUNTS PAYABLE

Sundry creditors	**33 713**	11 796	**33 685**	11 771
Accruals	**38 292**	36 809	**34 467**	32 300
	72 005	48 605	**68 152**	44 071

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 R18,3 million (2019: R19,5 million) payable for foreign currency purchased.
- Included in sundry creditors is an amount of R6 795 payable in respect of loyalty rewards which are non-interest bearing and settled within 5 working days.

17. SOUTH AFRICAN REVENUE SERVICE PAYABLE

Income tax	**1 282**	-	**-**	-
Value Added Taxation	**223**	383	**1**	178
	1 505	383	**1**	178

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

18. PROVISION FOR LEAVE PAY

Balance at beginning of year	**11 348**	8 940	**11 348**	8 940
Accrued during the year	**12 891**	9 068	**12 891**	9 068
Utilised during the year	**(15 303)**	(6 660)	**(15 303)**	(6 660)
Balance at end of year	**8 936**	11 348	**8 936**	11 348

Included in the leave accrued is a value of R1,5 million which relates to an increase in the provision from the Government TERS benefit received during the year.

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19. DEPOSITS FROM CUSTOMERS

The bank's deposit products include participation investment accounts, monthly investment plans, Haj 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.

The bank measures deposits from customers at amortised cost as both of the following conditions are met:

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

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
20. SUKUK HOLDERS/ALBARAKA SUKUK TRUST				
Sukuk capital	**307 700**	307 700	**307 700**	307 700
Sukuk profit payable	**1 667**	1 583	**-**	1 627
	309 367	309 283	**307 700**	309 327

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 R1,7 million (2019: R1,6 million) profit payable balance represents the December profit accrual which was paid in January 2021 (2019: January 2020). 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.

21. 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.

22. INCOME PAID TO SUKUK HOLDERS

Income paid from deposit pool	**23 866**	19 667	**23 777**	19 538
Hiba	**494**	-	**494**	-
	24 360	19 667	**24 271**	19 538

Income paid to sukuk holders is based on the profit sharing ratio agreed upon between the investor and the bank at the time of the initial investment. During the financial year the bank introduced Hiba (a voluntary payment) on the sukuk product to compensate for the significant decrease in rates due to market conditions in 2020.

For more information on Hiba visit our website: https://www.albaraka.co.za/Home/Shariah_Terminology

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	R'000	**R'000**	R'000

23. NET NON-ISLAMIC INCOME

Non-Islamic income	**18 374**	22 645	**18 374**	22 645
Amount transferred to welfare and charitable funds (note 15)	**(18 374)**	(22 645)	**(18 374)**	(22 645)
	-	-	**-**	-

24. FEE AND COMMISSION INCOME

Service fees	**20 662**	21 017	**20 662**	21 017
Commission received on sale of unit trusts	**7 509**	8 214	**7 509**	8 214
Profit from foreign currency trading	**7 168**	17 021	**7 168**	17 021
Management fee from subsidiary	**-**	-	**268**	255
	35 339	46 252	**35 607**	46 507

25. OTHER OPERATING INCOME

Property rental income	**-**	-	**-**	235
Net parking income from investment property	**706**	875	**71**	-
Dividend income	**1 139**	1 619	**18 139**	8 619
Surplus on disposal of property and equipment	**-**	592	**-**	592
Other	**670**	828	**601**	828
	2 515	3 914	**18 811**	10 274

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	GROUP		COMPANY	
	2020	2019	2020	2019
	R'000	R'000	R'000	R'000
26. OPERATING EXPENDITURE				
Operating expenditure includes:				
Auditor's remuneration				
Audit fees				
• current year	4 124	3 333	4 075	3 306
• prior year under-provision	296	247	296	247
Fees for other services				
• Other	963	394	963	394
	5 383	3 974	5 334	3 947
Consultancy fees	9 182	9 947	9 149	9 937
Depreciation of property and equipment	13 050	12 911	11 071	10 957
Amortisation of intangible assets	10 395	7 896	10 395	7 896
Depreciation of right of use assets	5 067	5 059	9 294	9 289
Short-term lease expense	-	-	1 443	1 359
Research costs	-	184	-	184
Staff costs	122 751	114 093	122 751	114 093
Shariah Board Members fees	1 454	1 180	1 454	1 180
Directors' emoluments	11 478	10 738	11 478	10 738
Executive services	8 211	7 353	8 211	7 353
Non-executive directors' fees	3 267	3 385	3 267	3 385

	2020			2019		
	Salary	Other benefits	Total	Salary	Other benefits	Total
	R'000	R'000	R'000	R'000	R'000	R'000
26.1 Executive services						
Company only						
SAE Chohan – Chief executive	2 779	800	3 579	2 691	649	3 340
A Ameed – Financial director	1 695	447	2 142	1 644	200	1 844
M Kaka – Chief operating officer	1 987	503	2 490	1 925	244	2 169
	6 461	1 750	8 211	6 260	1 093	7 353

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

	COMPANY	
	2020	2019
	R'000	R'000
26.2. Non-executive directors' fees		
AA Yousif	**455**	440
SA Randeree	**417**	404
JMA Cane	**415**	345
MJD Courtiade	**353**	333
ZH Fakey	**372**	299
F Kassim	**73**	299
A Lambat	**112**	409
MS Paruk	**435**	439
YGH Suleman	**424**	417
SM Nyasulu	**211**	-
	3 267	3 385

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	R'000	**R'000**	R'000
27. TAXATION				
Normal tax				
• current year	**11 316**	33 839	**7 395**	31 751
• prior year	**329**	(591)	**328**	(591)
Attributable to income from non-Islamic activities (refer to accounting policy 12 and note 23)	**-**	-	**-**	-
• current year	**(4 245)**	(2 730)	**(4 245)**	(2 730)
• prior year	**36**	15	**36**	15
Deferred tax				
• current year	**8 015**	(2 054)	**8 851**	(3 288)
• prior year	**(129)**	(709)	**(128)**	(709)
Taxation attributable to Islamic activities	**15 322**	27 770	**12 237**	24 448

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	%	**%**	**%**	**%**
Effective tax rate	**29,8**	27,2	**21,2**	25,0
Adjustable items:				
Non-taxable income	**0,5**	0,4	**8,7**	2,5
Non-deductible expenditure	**(1,8)**	(0,8)	**(1,5)**	(0,8)
Current tax adjustment - prior year	**(0,7)**	0,6	**(0,6)**	0,6
Deferred tax adjustment - prior year	**0,2**	0,6	**0,2**	0,6
South African companies tax rate	**28,0**	28,0	**28,0**	28,0

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

28. FAIR VALUE GAIN/(LOSS)

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
Fair value gain/(loss) on FVOCI	**183**	541	**183**	541
Deferred tax on FVOCI	**(9)**	(145)	**(9)**	(145)
Fair value gain/(adjustment) on forward exchange contract	**(245)**	668	**(245)**	668
Deferred tax on forward exchange contract	**69**	(187)	**69**	(187)
	(2)	877	**(2)**	877

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
29. EARNINGS PER SHARE				
Basic and diluted earnings per share are calculated on after tax income attributable to ordinary shareholders and a weighted average number of 32 240 260 (2019: 32 240 260) ordinary shares in issue during the year (cents)	**111,97**	230,7		
Headline earnings per share are calculated on headline earnings and a weighted number of 32 240 260 (2019: 32 240 260) ordinary shares in issue during the year (cents)	**111,97**	228,8		
Headline earnings per share are derived from:				
Profit for the year	**36 098**	74 370		
Profit arising on disposal of property and equipment	**-**	(589)		
	36 098	73 781		
30. DIVIDENDS				
No dividend was declared in the 2020 financial year (2019: 55 cents)	**-**	17 732	**-**	17 732

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	GROUP		COMPANY	
	2020	2019	2020	2019
	R'000	R'000	R'000	R'000
31. STATEMENT OF CASH FLOWS				
31.1. Cash generated from operations				
Profit before taxation	**51 420**	102 140	**57 610**	97 642
Adjustment for non-cash items and investment income:				
Income earned not yet received	**(95 801)**	(99 813)	**(95 801)**	(99 813)
Profits payable to depositors	**33 337**	40 283	**31 670**	40 327
Depreciation of property and equipment	**13 050**	12 911	**11 071**	10 957
Dividend income	**(1 139)**	(1 619)	**(18 139)**	(8 619)
Unrealised forex losses/(gains)	**(659)**	3 064	**(659)**	3 064
Amortisation of intangible assets	**10 395**	7 896	**10 395**	7 896
Depreciation on right of use assets	**5 067**	5 059	**9 294**	9 289
Deemed interest on leases	**1 128**	1 366	**1 128**	1 366
Net profit arising on disposal of property and equipment	**-**	(589)	**-**	(589)
Provision for leave pay	**(2 412)**	2 408	**(2 412)**	2 408
Credit loss expense	**21 385**	2 099	**21 385**	2 099
Assets written-off	**2 938**	-	**2 938**	-
Fair value (gain)/loss on financial instruments	**67**	(566)	**67**	(566)
	38 776	74 639	**28 547**	65 461
31.2. Changes in working capital				
Increase in deposits from customers	**1 221 578**	297 300	**1 221 578**	297 300
Increase in sukuk investment	**(1 583)**	106 033	**(1 627)**	106 013
Increase in accounts payable	**26 581**	7 612	**27 245**	3 930
Increase/(decrease) in welfare and charitable funds	**(3 890)**	5 776	**(3 890)**	5 776
Increase in advances and other receivables	**(1 305 372)**	(445 629)	**(1 305 352)**	(445 588)
Increase/(decrease) in capital reserves	**(2)**	838	**(2)**	838
Decrease/(increase) in regulatory balances	**43 168**	(23 961)	**43 168**	(23 961)
	(19 520)	(52 031)	**(18 880)**	(55 692)
31.3. Taxation paid				
Amount (payable)/receivable at beginning of year	**1 792**	(1 032)	**1 714**	(1 086)
Amount charged to profit for the year	**(7 456)**	(30 533)	**(3 534)**	(28 445)
Amount charged to welfare and charitable funds	**(4 209)**	(2 715)	**(4 209)**	(2 715)
Amount (receivable)/payable at end of year	**1 282**	(1 792)	**(14)**	(1 714)
	(8 591)	(36 072)	**(6 043)**	(33 960)

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
31.4. Dividends paid				
Amount outstanding at beginning of year	**(1 366)**	(1 224)	**(1 366)**	(1 224)
Dividends declared and paid	**-**	(17 732)	**-**	(17 732)
Amount outstanding at end of year	**1 289**	1 366	**1 289**	1 366
	(77)	(17 590)	**(77)**	(17 590)
31.5. Purchase of property and equipment				
Vehicles	**-**	(2 074)	**-**	(2 074)
Equipment and computers	**(1 775)**	(10 815)	**(1 775)**	(10 878)
Leasehold improvements	**(59)**	(92)	**(59)**	(92)
Work in progress	**-**	(257)	**-**	(257)
	(1 834)	(13 238)	**(1 834)**	(13 301)
31.6. Purchase of intangible assets				
Computer software	**(4 629)**	(761)	**(4 629)**	(761)
Capitalised project costs	**(8 076)**	(17)	**(8 076)**	(17)
Work in progress	**(11 495)**	(26 498)	**(11 495)**	(26 498)
	(24 200)	(27 276)	**(24 200)**	(27 276)

32. LETTERS OF CREDIT, GUARANTEES AND CONFIRMATIONS

Guarantees and confirmations	**510 902**	388 647	**510 902**	388 647
Letters of credit	**2 243**	2 334	**2 243**	2 334
	513 145	390 981	**513 145**	390 981

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.

33. CAPITAL COMMITMENTS

Authorised and contracted for				
- Property and equipment	**19**	280	**19**	280
	19	280	**19**	280

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
34. FINANCIAL INSTRUMENTS				
34.1. Credit risk - maximum exposure to credit risk				
Advances to customers (note 10.1)	**5 112 727**	5 307 250	**5 112 727**	5 307 250
Advances and balances with banks	**2 837 395**	1 312 990	**2 837 395**	1 312 990
Advances and balances with Central Bank	**488 631**	457 635	**488 631**	457 635
Letters of credit, guarantees and confirmations	**513 145**	390 981	**513 145**	390 981
	8 951 898	7 468 856	**8 951 898**	7 468 856
34.2. Currency risk				
The group's exposure to currency risk was as follows:				
Cash and cash equivalents				
- EUR	**846**	1 644	**846**	1 644
- GBP	**156**	1 215	**156**	1 215
- SAR	**465**	425	**465**	425
- USD	**15 550**	23 597	**15 550**	23 597
- AED	**15 016**	149	**15 016**	149
- AUD	**388**	84	**388**	84
- Other	**-**	19	**-**	19
	32 421	27 133	**32 421**	27 133

Based on the bank's year-end foreign currency holdings a 1% fluctuation in the exchange rate will result in a R324 000 (2019: R271 000) foreign exchange gain or loss. The bank does not speculate in currency fluctuations and therefore does not hold any stock for this purpose.

34.3. Liquidity risk

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

	Carrying Amount	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 Years	More than 5 years
	R'000	R'000	R'000	R'000	R'000	R'000
Group						
2020						
Assets						
Advances and other receivables	**7 902 172**	**923 923**	**1 892 919**	**1 147 700**	**2 110 582**	**1 827 048**
Investment securities	**25 918**	**-**	**-**	**-**	**-**	**25 918**
Cash and cash equivalents and regulatory balances	**554 543**	**280 794**	**17 920**	**127 469**	**-**	**128 360**
	8 482 633	**1 204 717**	**1 910 839**	**1 275 169**	**2 110 582**	**1 981 326**
Group						
2020						
Liabilities						
Deposits from customers	**7 433 546**	**2 185 123**	**1 479 748**	**3 403 647**	**72 261**	**292 767**
Sukuk	**309 367**	**1 667**	**-**	**-**	**307 700**	**-**
Accounts payable	**72 005**	**66 741**	**3 509**	**1 755**	**-**	**-**
Letters of credit, guarantees and confirmations	**513 145**	**60 622**	**248 834**	**126 231**	**30 862**	**46 596**
	8 328 063	**2 314 153**	**1 732 091**	**3 531 633**	**410 823**	**339 363**
Net liquidity gap	**154 570**	**(1 109 436)**	**178 748**	**(2 256 464)**	**1 699 759**	**1 641 963**
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	-	138 528
	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

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

34.4. Intrinsic rate risk

Loans and borrowings subject to intrinsic rate risk

	Intrinsic rate	Maturity	2020	2019
	14,3%	2024	R'000	R'000
Current portion – less than 12 months			**9 364**	7 003
Non-current portion – greater than 12 months			**43 624**	52 988
Total obligations under lease (note 4)			**52 988**	59 991

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

34.5. 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 7 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				
2020				
Assets				
Advances	-	7 873 142	-	7 873 142
Forward exchange contract	-	-	18 716	18 716
Investment securities	16 372	-	9 546	25 918
Cash and cash equivalents	-	198 828	-	198 828
Regulatory balances	-	355 715	-	355 715
	16 372	8 427 685	28 262	8 472 319
Liabilities				
Deposits from customers	-	7 433 546	-	7 433 546
Sukuk	-	309 367	-	309 367
Accounts payable	-	53 712	-	53 712
Forward exchange contract	-	-	18 293	18 293
	-	7 796 625	18 293	7 814 918

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

34.6 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

NOTES TO THE FINANCIAL STATEMENTS
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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				
2020				
Financial assets				
- Amortised cost	**-**	**8 427 686**	**-**	**8 427 686**
- Fair value through other comprehensive income	**-**	**16 372**	**-**	**16 372**
- Fair value through profit and loss	**28 262**	**-**	**-**	**28 262**
	28 262	**8 444 058**	**-**	**8 472 320**
Financial liabilities				
- Amortised cost	**-**	**7 796 625**	**-**	**7 796 625**
- Fair value through profit and loss	**18 293**	**-**	**-**	**18 293**
	18 293	**7 796 625**	**-**	**7 814 918**
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

35. 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 R11,4 million (2019: R10,9 million). Executives' portion of the contribution amounted to R895 492 for the year (2019: R640 267).

36. RELATED PARTY INFORMATION

The holding company of Albaraka Bank Limited at 31 December 2020 is Al Baraka Banking Group B.S.C. which is a company registered in the Kingdom of Bahrain and which holds 64,5% (2019: 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% (2019: 12,6%) of the company's ordinary shares.

Timewest Investments Proprietary Limited, a company incorporated in South Africa, holds 7,7% (2019: 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.

Giving for Hope Foundation Trust is a registered trust, established in 2020 as a COVID-19 disaster relief fund. The sole intention of the Trust is to carry-on relief activities to assist qualifying Small, Medium and Micro Enterprises (SMMEs) negatively impacted by the pandemic. The Trust appointed Albaraka Bank Limited as agent and administrator to manage and administrate the Trust Funds on a Shariah-compliant basis. Albaraka Bank Limited renders such services without charge as part of its social contribution in supporting SMMEs. One of the Bank's directors is also trustee of the trust. The Giving for Hope Foundation 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 20.

The subsidiary of the bank, Albaraka Properties (Proprietary) Limited, and the related intercompany balances are identified in note 7. The bank also made lease repayments amounting to R14 959 557 (2019: R13 851 441) 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 intercompany account. The management fee charged to the subsidiary is disclosed in note 24. A dividend of R17 000 000 (2019: 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 26.

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	
	2020	2019
	R'000	**R'000**
Property finance - Musharaka and Murabaha		
Balance outstanding at beginning of year	**13 569**	14 737
Advances granted during the year	**150**	2 380
Repayments during the year	**(3 618)**	(5 032)
Profit earned	**1 109**	1 484
	11 210	13 569
Profit mark-up range for the year	**5,0%-10,5%**	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 400 760 (2019: R1 631 184).

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

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	COMPANY	
	2020	2019
	R'000	**R'000**
Instalment sale		
Balance outstanding at beginning of year	**1 533**	1 334
Advances granted during the year	**-**	685
Repayments during the year	**(781)**	(817)
Profit earned	**260**	331
	1 012	1 533
Profit mark-up range for the year	**8,0%-13%**	6,0%-12,94%
Trade finance		
Balance outstanding at beginning of year	**1 092**	1 388
Advances granted during the year	**1 949**	3 436
Repayments during the year	**(1 571)**	(4 010)
Profit earned	**51**	278
	1 521	1 092
Profit mark-up range for the year	**6,5%-6,5%**	9,50%-9,75%

Iqraa Trust
During the year, the bank donated an amount of R6 130 068 (2019: R10 620 922) to the trust.
At 31 December 2020 funds deposited by the trust with the bank amounted to R24 166 492 (2019: R19 844 091).

Giving for Hope Foundation Trust
During the year, the bank provided an amount of R5 000 000 in donations and R5 000 000 in an interet-free loan to the trust.
At 31 December 2020 funds deposited by the trust with the bank amounted to R68 027 000.

Albaraka Sukuk Trust		
Sukuk capital	**307 700**	307 700
Total exposure to related parties	**321 443**	323 894

Staff

Staff advances are conducted at subsidised profit rates.		
The total staff advances outstanding at the end of the period amounted to	**73 045**	58 438

37. STANDARDS AND AMENDMENTS NOT YET EFFECTIVE

At the date of authorisation of the annual financial statements for the year ended 31 December 2020, 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.

Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (effective 01 January 2023)

Amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement, advising that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (effective 01 January 2022)

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Improvements to International Financial Reporting Standards – IFRS 9 Financial instruments: Fees in the '10 per cent' test for de-recognition of financial liabilities (effective 01 January 2022)

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39.

Onerous Contracts: Costs of Fulfilling a Contract – Amendments to IAS 37 (effective 01 January 2022)

The amendment specifies which costs need to be included when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded, unless they are explicitly chargeable to the counterparty under the contract.

AAOIFI STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
Assets				
Cash and cash equivalents	**554 543**	617 245	**549 538**	613 198
Sales receivables	**3 877 562**	2 414 873	**3 877 562**	2 414 873
Musharaka financing	**3 949 858**	4 005 231	**3 949 858**	4 005 231
Ijarah financing	**44 073**	48 890	**44 073**	48 890
Investment securities	**25 918**	25 723	**25 918**	25 723
Investment in subsidiary company	**-**	-	**31 117**	20 200
Total investments	**8 451 954**	7 111 962	**8 478 066**	7 128 115
Other assets	**29 030**	53 239	**63 687**	100 714
Property and equipment	**105 286**	116 502	**25 051**	34 288
Investment properties	**10 339**	10 339	**-**	-
Intangible assets	**67 264**	56 366	**67 264**	56 366
Total assets	**8 663 873**	7 348 408	**8 634 068**	7 319 483
Liabilities, unrestricted investment accounts and owners' equity				
Liabilities				
Customer current accounts and other	**906 683**	774 549	**906 683**	774 549
Payables	**92 549**	63 795	**77 089**	56 778
Other liabilities	**21 917**	25 807	**21 917**	25 807
Total liabilities	**1 021 149**	**864 151**	**1 005 689**	**857 134**
Equity of unrestricted investment account holders	**6 519 407**	5 384 833	**6 519 407**	5 384 833
Sukuk	**309 367**	309 283	**307 700**	309 327
Profits distributable to depositors	**7 456**	20 917	**7 456**	20 917
Total liabilities and unrestricted investment accounts	**7 857 379**	**6 579 184**	**7 840 252**	**6 572 211**
Owners' equity	**806 494**	769 224	**793 816**	747 272
Share capital	**322 403**	322 403	**322 403**	322 403
Share premium	**82 196**	82 196	**82 196**	82 196
Other reserve	**1 751**	1 753	**1 751**	1 753
Retained income	**400 144**	362 872	**387 466**	340 920
Total liabilities, unrestricted investment accounts and owners' equity	**8 663 873**	7 348 408	**8 634 068**	7 319 483

AAOIFI STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	GROUP		COMPANY	
	2020	2019	**2020**	2019
	R'000	**R'000**	**R'000**	**R'000**
Income from sales receivables	196 206	205 373	196 206	208 388
Income from Musharaka financing	363 888	384 409	363 888	384 409
Income from Ijarah financing	19 082	10 052	19 082	10 052
Return on unrestricted investment accounts before the bank's share as mudarib	579 176	599 834	579 176	602 849
Less: bank's share as mudarib	(309 699)	(307 578)	(309 787)	(307 708)
Return on unrestricted accounts	269 477	292 256	269 389	295 141
Bank's share in income from investment (as a mudarib and as a fund owner)	309 699	307 578	309 787	307 708
Bank's income from its own investments	1 139	1 619	18 139	8 619
Revenue from banking services	20 662	21 017	20 662	21 017
Other revenue	16 053	27 530	15 617	27 145
Total bank revenue	347 553	357 744	364 205	364 489
Administrative and general expenditure	(257 473)	(227 877)	(269 914)	(241 074)
Depreciation of property and equipment	(13 050)	(12 911)	(11 071)	(10 957)
Amortisation of intangible assets	(10 395)	(7 896)	(10 395)	(7 896)
Depreciation of ijarah	(15 224)	(8 234)	(15 224)	(8 234)
Profit before taxation	51 411	100 826	57 601	96 328
Taxation	(15 322)	(27 770)	(12 237)	(24 448)
Profit for the period	36 089	73 056	45 364	71 880

AL BARAKA BANKING GROUP GLOBAL NETWORK

AL BARAKA BANKING GROUP B.S.C.
GROUP HEADQUARTERS:
Bahrain Bay
PO Box 1882, Manama
Kingdom of Bahrain

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Mr Adnan Ahmed Yousif
Tel: +973 17541 122
Fax: +973 17536 533
Web: www.albaraka.com

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 Bank Germany.

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'

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