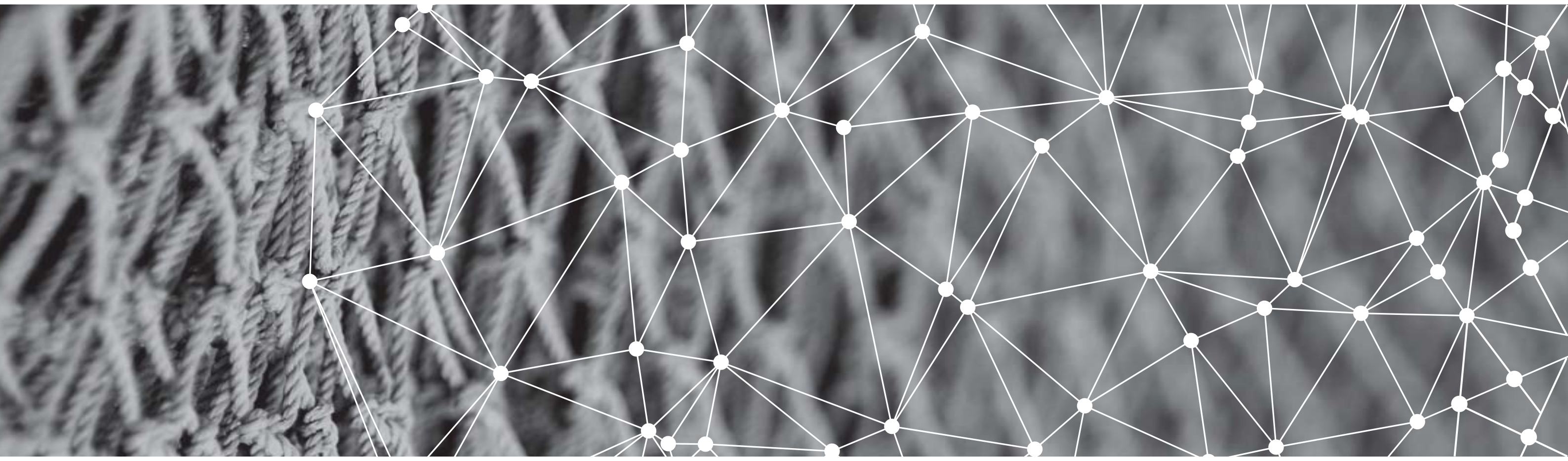
alBaraka

Annual Report 2017



IMPACTING LIVES THROUGH PARTNERSHIPS

(Click text below to open page link)

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Your Partner Bank

Introduction

“Al Baraka Banking Group’s philosophy, in essence, is that Allah, The Almighty, grants mankind the power to inherit the land on this earth. As such Man is not the owner of wealth but he is responsible for it.

The purpose of Man, by the commandment of Allah, The Almighty, is to construct, embellish, create and build on this earth. Man is therefore also ordained to create jobs for others. Thus, the wealth bestowed upon us belongs to Allah, The Almighty.

Therefore, we must apply Shari’a rules related to the ownership of wealth in creating the wealth and in investing, exchanging, growing and spending the wealth.”

Shaikh Saleh Abdullah Kamel

Chairman of the Board of Directors
Al Baraka Banking Group

Over 2.5 Million Customers

We believe that Banking has a crucial role to play in society and as Bankers we have incredible responsibility for the resources in our hands.

Exploring the Innovative Genius of Islamic Banking to Impact Lives

Banking in the reflection of nature

Vision

We believe society needs a fair and equitable system: one which rewards effort and contributes to the development of the community.

Mission

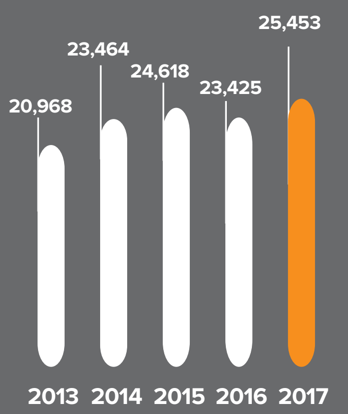
To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success.

Financial Highlights

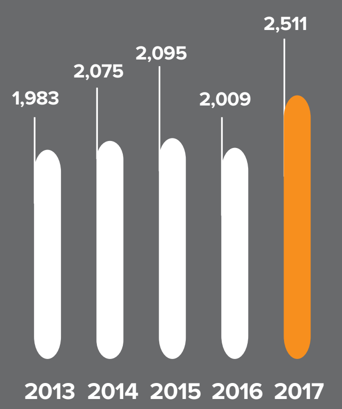
	2017	2016	2015	2014	2013
EARNINGS (US$MILLIONS)					
Total Operating Income	999	1,074	1,000	918	909
Net Operating Income	430	507	464	396	420
Net Income	207	268	286	275	258
Net Income Attributable to Equity Holders of the Parent	129	152	163	152	145
Basic and Diluted Earnings per Share - US Cents*	9.47	12.66	13.59	12.67	12.07
FINANCIAL POSITION (US$MILLIONS)					
Total Assets	25,453	23,425	24,618	23,464	20,968
Total Financing and Investments	19,123	17,465	18,358	17,624	15,355
Total Customer Accounts	20,670	19,179	20,164	19,861	17,744
Total Owners' Equity	2,511	2,009	2,095	2,075	1,983
Equity attributable to Parent	1,740	1,281	1,356	1,338	1,299
CAPITAL (US$MILLIONS)					
Authorised	1,500	1,500	1,500	1,500	1,500
Subscribed and Fully Paid-up	1,206.7	1,149.2	1,115.7	1,093.9	1,048.3
PROFITABILITY RATIOS					
Return on Average Owners' Equity	9%	13%	14%	14%	13%
Return on Average Parent's Equity	9%	12%	12%	12%	11%
Return on Average Assets	0.8%	1.1%	1.2%	1.2%	1.3%
Operating Expenses to Operating Income	57%	53%	54%	57%	54%
FINANCIAL POSITION RATIOS					
Owners' Equity to Total Assets	10%	9%	9%	9%	9%
Total Financing and Investments as a Multiple of Equity (times)	7.6	8.7	8.8	8.5	7.7
Liquid Assets to Total Assets	25%	24%	24%	26%	27%
Net Book Value per Share (US$)*	1.12	1.07	1.13	1.12	1.08
OTHER INFORMATION					
Total Number of Employees	12,795	12,644	11,458	10,853	9,891
Total Number of Branches	675	697	586	549	479

* Adjusted for treasury and bonus shares.

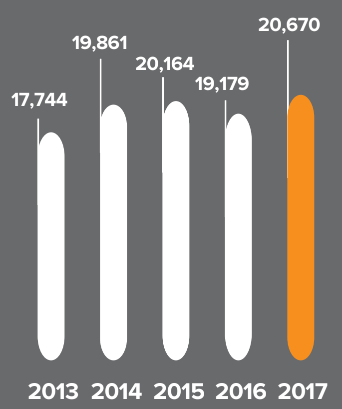
TOTAL ASSETS
(US$ MILLIONS)



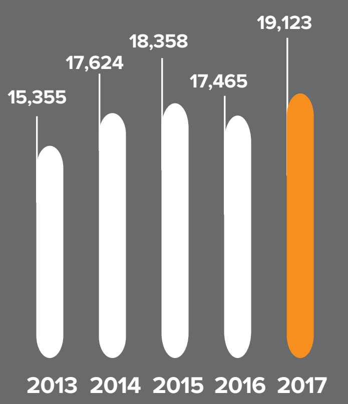
TOTAL OWNERS' EQUITY
(US$ MILLIONS)



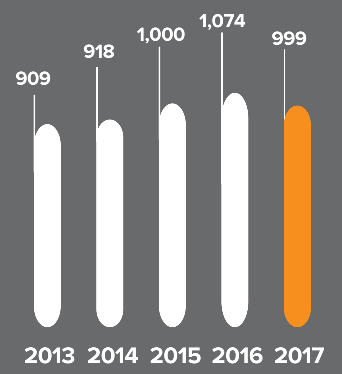
TOTAL CUSTOMER ACCOUNTS
(US$ MILLIONS)



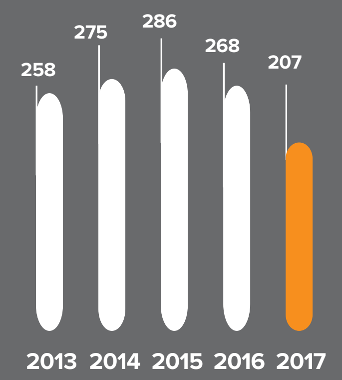
TOTAL FINANCING & INVESTMENTS
(US$ MILLIONS)



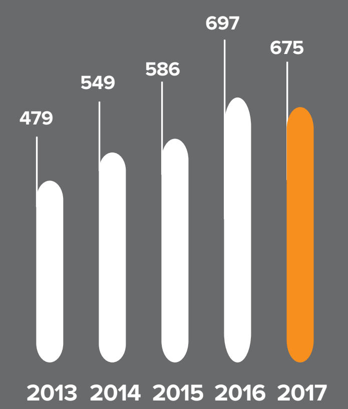
TOTAL OPERATING INCOME
(US$ MILLIONS)



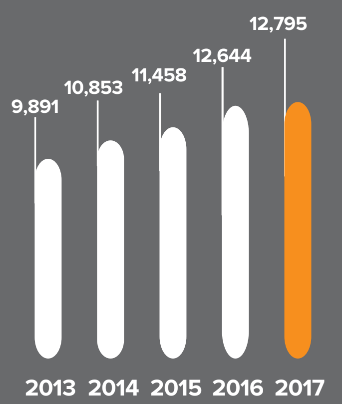
NET INCOME
(US$ MILLIONS)



TOTAL NUMBER
OF BRANCHES



TOTAL NUMBER
OF EMPLOYEES



Net Profit
US$207
million

Board of Directors & Unified Shari'a Supervisory Board

BOARD OF DIRECTORS

Shaikh Saleh Abdullah Kamel
Chairman

Mr. Abdulla A. Saudi ■
Vice Chairman

Mr. Abdullah Saleh Kamel ▲
Vice Chairman

Mr. Saleh Mohammed Al Yousef ■ ● ●
Board Member

Mr. Adnan Ahmed Yousif ●
Board Member and President & Chief Executive

Mr. Abdul Elah Sabbahi ● ●
Board Member

Mr. Ebrahim Fayez Al Shamsi ■ ▲ ●
Board Member

Mr. Jamal Bin Ghalaita ■ ●
Board Member

Mr. Yousef Ali Fadil Bin Fadil ■ ▲ ●
Board Member

Dr. Bassem Awadallah ■ ▲ ●
Board Member

Mr. Mohyedin Saleh Kamel ●
Board Member

Mr. Saud Saleh Al Saleh ■ ▲
Board Member

Dr. Khaled Abdulla Ateeq ●
Board Member

Mr. Salah Othman Abuzaid
Secretary to the Board

UNIFIED SHARI'A SUPERVISORY BOARD

Shaikh Dr. Abdul Sattar Abu Ghuddah
Chairman

Shaikh Dr. Abdulla Bin Sulaiman Al Mannea
Vice Chairman

Shaikh Dr. Abdullatif Al Mahmood
Member

Shaikh Dr. Abdulaziz Bin Fowzan Al Fowzan
Member

Dr. Ahmed Mohiyeldin Ahmed
Member

Dr. Eltigani El Tayeb Mohammed
Secretary to the Unified Shari'a Supervisory Board

COMMITTEE NAME	CHAIRMAN OF THE COMMITTEE	MEMBER OF THE COMMITTEE
Board Executive Committee	▲	●
Board Audit & Governance Committee	▲	●
Board Affairs & Remuneration Committee	▲	●
Board Risk Committee	▲	●
Board Sustainability & Social Responsibility Committee	▲	●
Independent Directors		■

Executive Management

Mr. Adnan Ahmed Yousif
President & Chief Executive

Mr. Majeed H. Alawi *
Executive Vice President - Head of Internal Audit

Mr. K. Krishnamoorthy
Executive Vice President - Head of Strategic Planning

Mr. Abdulrahman Shehab
Executive Vice President - Head of Operations & Administration

Mr. Hamad Abdulla Al Oqab
Executive Vice President - Head of Finance

Mr. Jozsef Peter Szalay **
Senior Vice President - Head of Credit & Risk Management

Mr. Salah Othman Abuzaid
Senior Vice President - Head of Legal Affairs

Mr. Mohammed A. El Qaq
Senior Vice President - Head of Commercial Banking

Mr. Khalid Al Qattan
Senior Vice President - Head of Treasury, Investments & Financial Institutions

Mr. Qutub Yousafali
Head of Group Compliance

Dr. Ali Adnan Ibrahim
First Vice President - Head of Sustainability & Social Responsibility

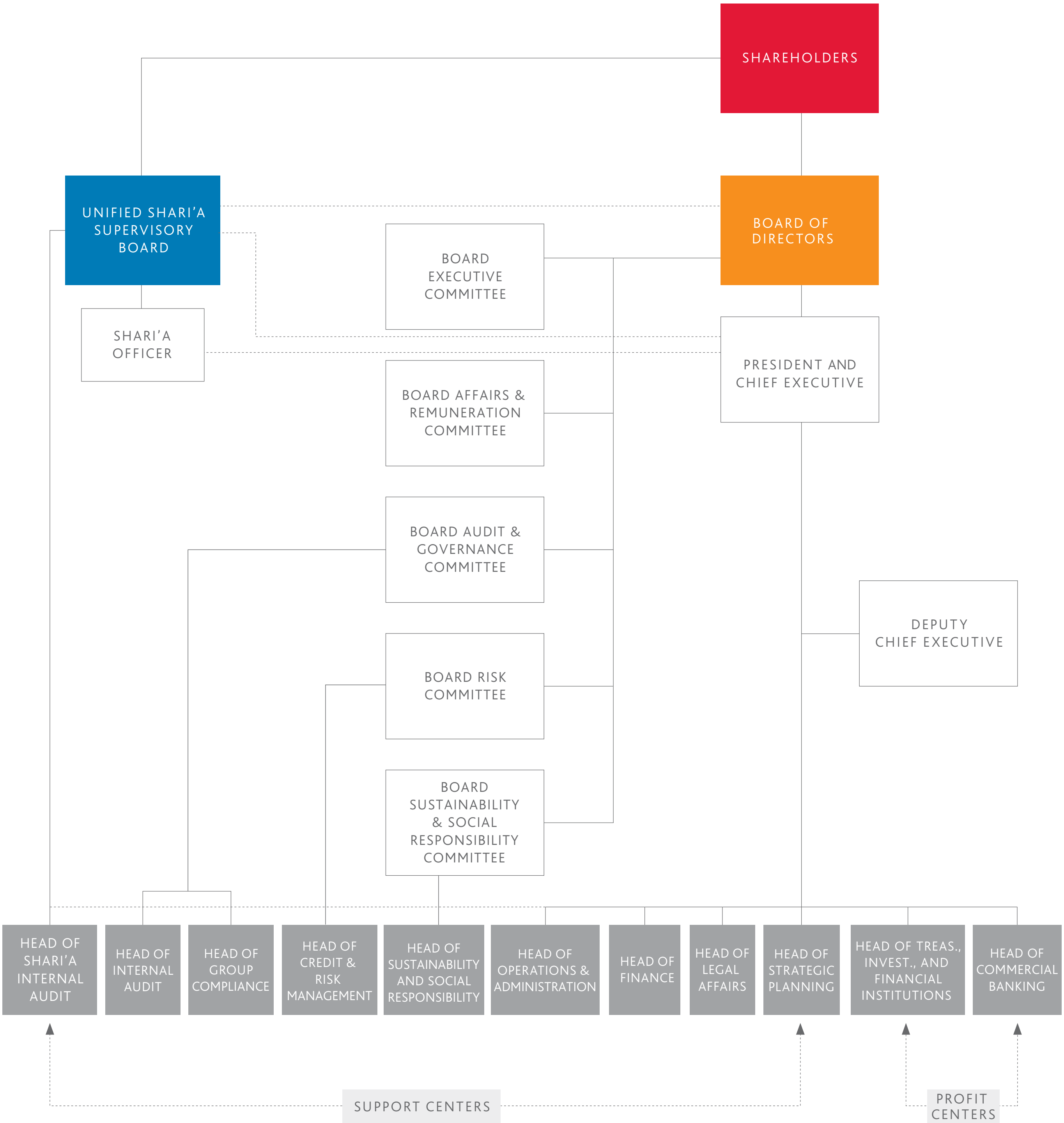
* *Mr. Majeed H. Alawi retired on 31st January 2018, and Mr. Mohammed A. Al Alawi, First Vice President, is the Acting Head of Internal Audit, effective 1st February 2018.*

** *Mr. Jozsef Peter Szalay retired on 31st January 2018, and Mr. Azhar Aziz Dogar, Senior Vice President has been appointed as Head of Credit and Risk Management effective 1st February 2018.*

Good Governance

"Our commitment to forging deeper customer relationships begins with a good governance structure"

Head Office Organisation Chart



Empowering through Islamic banking to inspire the world

Building Goodwill through innovation and pre-emption

Acheived against a background of testing economic and political conditions in many markets, these results show the strength of Al Baraka's growth strategy

Shaikh Saleh Abdullah Kamel
Chairman

Directors' Report

(All figures in US Dollars unless Stated otherwise)

2017 REVIEW

We are pleased to report that 2017 was a year when Al Baraka Banking Group (ABG) achieved robust financial results. Most of the subsidiaries reported growth in assets, although currency devaluations in four of the countries where our Group operates had some impact. Achieved against a background of testing economic and political conditions in many markets, these results show the strength of Al Baraka's growth strategy.

The Group's total assets grew by 9% to US$25.5 billion (US$23.4 billion as at 31 December 2016). Operating assets (financing and investments) amounted to US$19.1 billion (US$17.5 billion as at 31 December 2016), up 9%. Customer accounts also increased, by 8%, to US$20.7 billion (US$19.2 billion as at 31 December 2016), reflecting a growing customer base and strong customer loyalty. The bank takes a cautious approach to credit, which is reflected in the year's results. With the currency devaluations not factored in, in terms of local currencies the total asset growth was 11% when compared to 2016.

Total operating income declined by 7% to US$1.0 billion (US$1.1 billion in 2016), partially impacted by substantial falls in four local currencies. Net income before provisions, impairment and taxation decreased by 15% to US$430 million (US$507 million in 2016). After an increase in prudential provisions, net income fell by 23% to US$207 million (US$268 million in 2016). The net income attributable to equity holders of the ABG fell by 15% to US$129 million (US$152 million in 2016).

The Group issued its maiden Sukuk, which was significantly over-subscribed by five times, confirming the market's confidence in

US$999 MILLION

TOTAL OPERATING INCOME

US$430 MILLION

NET OPERATING INCOME

our strategy. The US$400 million Additional Tier I Perpetual Sukuk complies with Basel III under Central Bank of Bahrain rules. Taking into account the Sukuk proceeds, total equity reached US$2.5 billion at the end of 2017, up 25% on the previous year end. The total-equity-to-total-assets ratio reached 10%.

Confirming the Group's capital strength, Dagong Global Credit Rating Company Limited (Dagong) and Islamic International Rating Agency (IIRA) together reaffirmed the international investment grade credit rating of ABG at BBB+/A3 and raised the outlook to stable from negative. Additionally, IIRA has reaffirmed ABG's national scale rating at A+(bh)/A2(bh).

Notably, ABG formed a partnership with BMCE Bank of Africa during the year to launch Bank Al-Tamweel Wa Al-Inma (BTI Bank), a new Moroccan participation bank. We believe now is a promising time to offer Islamic banking products in Morocco and aim to establish a model of cooperation that will create a unique network of branches in the country, thus extending our presence to much of the North Africa.

In light of the Group's 2017 performance, the Board of Directors has recommended a cash dividend distribution to shareholders of 2.0% of the paid-up capital, amounting to US$24.13 million, after a transfer of US$12.90 million to the legal reserve, with the US$91.99 million balance of the net income allocated to retained earnings. The Board has also recommended a bonus dividend of 3 shares for every 100 shares issued, to be allocated from retained earnings and amounting to US$36.20 million. The Board has further recommended a remuneration distribution of US$1.50 million, to be paid to the directors following approval of shareholders at the annual general meeting.

As at 31 December 2017, ownership of shares in ABG by Board Members and Executive Management (except the Chairman) is immaterial and no major trading of such shares took place in 2017. Details of shares held by Directors and Executive Management are provided in the notes to the consolidated financial statements.

During the year, we welcomed Dr. Khalid Ateeq to our Board. Dr. Ateeq brings invaluable experience in regulatory issues, having served as Executive Director of Banking Supervision at the Central Bank of Bahrain. Mr. Fahad Al Rajhi left the membership of the Board earlier this year and we would like to express our gratitude for his contribution all these years.

Turning to compliance, the past four years have seen the Group continue to enhance the compliance-related policies, procedures and framework. Staff skills have been upgraded by providing targeted training. Systems and automated tools are being introduced, as required, to improve compliance standards throughout.

Sustainability and social responsibility is a priority for the Group, which aims to serve the needs of society, while adhering always to the principles of Shari'a. Five years ago, we established the "Al Baraka Sustainability and Social Responsibility Programme", the first such programme to be introduced by any Islamic bank. In 2017, ABG carried out its first full impact assessment of progress, comparing 2016's activities against the 2016-2020 goals. We are pleased to report that ABG has exceeded all its 2016 targets, defined in the Al Baraka Goals, in jobs, education and healthcare.

2018 AND BEYOND

Looking to the future, we will continue our proven strategy of growth through our branch opening programme, launching new products and increasing market share. Notably, we will expand in the important Moroccan market in 2018. Additionally, many of our subsidiaries have plans to leverage digital technology, focusing on gaining competitive advantage in retail markets.

The economic and foreign exchange outlook is difficult to predict but there were signs of improving conditions in late 2017. We will continue to apply our cautious policies as well as our financial and technical resources to strengthen the units, and to maximise returns for shareholders.

We would like to congratulate our subsidiaries for their commitment to the Group's values and for their performance in the face of 2017's headwinds in regional banking markets. We would also like to extend our gratitude to our Executive Management team, who have continued to work hard to successfully execute the Group's strategic plan.

Finally, we thank our Unified Shari'a Supervisory Board, the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism of Bahrain, Bahrain Bourse, Nasdaq Dubai and all our other subsidiaries' regulatory authorities, for their constant support and wise guidance over the past year.

For and on behalf of the Board of Directors

Saleh Abdullah Kamel
Chairman

Learning from the knowledge of the past

Investing into the future

A strong influence in 16 countries with 12,795 employees across 675 branches

Mr. Adnan Ahmed Yousif
President & Chief Executive

President & Chief Executive's Report

(All figures in US Dollars unless Stated otherwise)

US$552 MILLION

GROUP'S SHARE OF INCOME FROM FINANCING AND INVESTMENTS INCLUDING MUDARABA SHARE

US$707 MILLION

RETURN ON EQUITY OF INVESTMENT ACCOUNT HOLDERS

I am pleased to say that the Group's expansion continued in 2017, although significant currency devaluations and difficult economic conditions had some impact. Whether measured by total assets, branches, products or customers, ABG growth strategy continued to be implemented during the year.

ABG has consistently set out to expand through opening new branches and launching new Islamic products. This has driven continual growth in assets and income over the past 10 years.

After the currency declines in four countries where ABG units operate, total operating profit decreased by 7% year on year to US$999 million and net operating income fell by 15% to US$430 million. Net income was additionally affected by a rise in provisions, resulting in a net profit of US$207 million, a decrease of 23% compared with the previous year.

Turning to the balance sheet, total assets grew by 9% to reach US$25.5 billion. This increase reflects the expansion in ABG's customer base, as well as financing and investment activities. In local currency terms growth was higher still, but the depreciations against the dollar resulted in a lower rate of reported growth.

The issuance of a US$400 million additional tier 1 perpetual sukuk boosted total equity, which stood at US$2.5 billion at the 2017 year end, 25% higher than December 2016. More than 90 banks and asset managers from Asia, Europe and the Middle East participated in the issue, which was heavily oversubscribed by five times. Such widespread demand for ABG's debut issue shows a high level of market confidence in both ABG's credit and our strategy. The capital will help to fuel ABG's future growth.

ABG's branch network and range of products continued to expand across many of the 16 country units. Targeted expansion in countries where there is strong unmet demand for Islamic banking products lies at the heart of the bank's growth strategy. In 2017, the number of branches and representative offices ended the year at 675.

In a major step forward, ABG partnered with the BMCE Bank of Africa at the end of December to launch BTI Bank, a new Moroccan participation bank. BTI Bank aspires to create a new model of banking for Moroccan individuals and businesses, with carefully crafted products and solutions, at a time when Morocco's Shar'ia banking regulations are being developed and the market looks promising. Headquartered in Casablanca, BTI Bank aims to have a network of 37 branches by 2022 spread across the country, supported by electronic channels.

Across ABG's units, the drive to enhance multi-channel retail banking continued in the year. A decision to revamp the core banking system in four units, and introduce the same system for BTI Bank, will help to develop new digital banking initiatives. Additionally, ABG joined with two other banks to launch ALGO, the world's first fintech consortium focused on developing Shari'a-compliant banking solutions. As ABG makes a gradual push into modern digital banking, it is mindful that it must combine this with the personal branch-based banking that many of its customers still value.

Turning to 2018, economic conditions appear to be improving, helped by the partial recovery of the oil price from its historic lows. If these signs of improvement are sustained, our growth strategy should lead to greater profitability in 2018 and the following years.

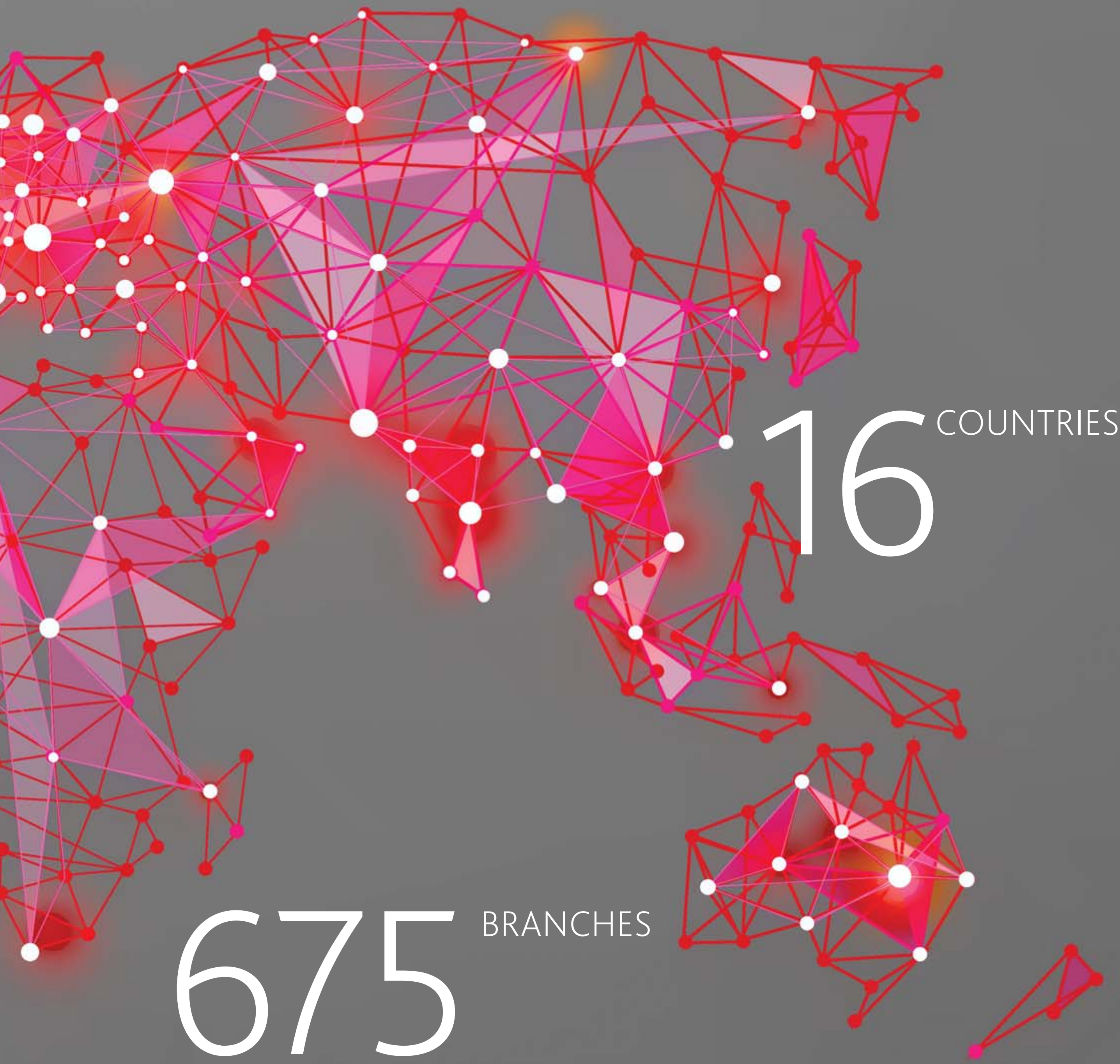
REVIEW OF THE UNITS

The following pages review the performance of the units in 2017. Except where local currency sums are explicitly mentioned, all figures are stated in the US dollar equivalents of the audited local currency-based balance sheets and income statements, prepared in accordance with the Islamic Accounting Standards, issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) (and IFRS where AAOIFI is silent), and without any Group-level adjustments.

Each unit is managed by its respective Board of Directors. Reporting lines are to the Group, but decision making is decentralised within the framework of ABG's strategic direction and in full compliance with the regulations of respective countries' central banks.

3 CONTINENTS

Al Baraka is consistently improving and continuing its fundamental approach to its customers – which is based on relationships

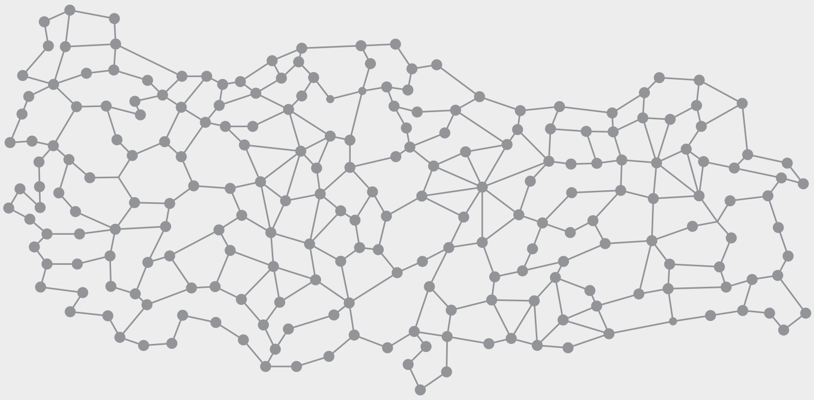

16 COUNTRIES
675 BRANCHES

Turkey

Al Baraka Türk Participation Bank

Established
1985

Branches
220



Turkey's economy was one of the fastest growing in the G20, buoyed by a surge in construction output and a revival in consumer spending. However, diplomatic tensions with Western allies put the lira under pressure, impacting the profits of banks reporting in dollars.

After more than a decade of strong growth, Al Baraka Turkey's growth has slowed in the past two years. Total assets were 10% higher in local currency terms at TRY36.3 billion (TRY32.9 billion in 2016). In dollars terms they were higher only by 2% reaching US$9.6 billion (US$9.4 billion in 2016).

Total operating income rose 20% to TRY1.5 billion (TRY1.2 billion in 2016), reflecting a strong performance from self and jointly financed accounts and investments, and moderate growth in revenue from banking services. However, in dollars operating income declined by 1% to US$411 million (US$416 million in 2016).

Provisions rose substantially to impact net income. At US$61.0 million, net income was 22% lower than 2016's US$78.2 million.

Al Baraka Turkey was one of the first Islamic banks in the world to have a mobile banking app, allowing customers to add their cards to Android mobile phones to make payments. It also planned a digital banking service, which will give customers a complete omni-channel service, spanning the web, call centre, mobile and branch.

Turning to products, the bank actively broadened its range. New products included: a silver deposit account, a Hajj participation account, a personal accident policy for the education sector and workplace/land financing for foreigners.

The bank continued to increase its customer base, as well as growing its physical presence. The branch network as of the end of 2017 was 220, with the opening of seven branches in the year. Seven new ATMs were added, bringing the total to 281.

Reflecting the bank's strong position in Turkey, it continued to attract awards, including: Best Islamic Bank 2017 (Global Islamic Finance Awards), Best Banking Card Growth (Mastercard Banking Awards), Excellence in SWIFT International Money Transfer (KBC Bank) and Best Islamic Bank, Turkey (Islamic Finance News).

(All figures in US Dollars unless Stated otherwise)

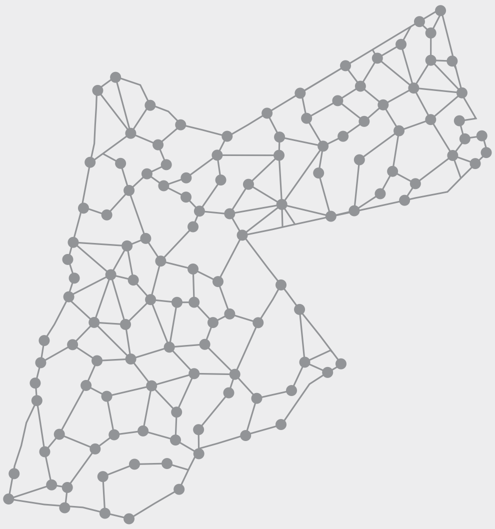
Unit Head:	Mr. Meliksah Utku
Title:	General Manager
Address:	Saray Mahallesi, Dr. Adnan Büyükdeniz Caddesi, No. 6, 34768 Ümraniye, Istanbul, Turkey
Tel:	+90 216 666 01 01
Fax:	+90 216 666 16 00
Website:	albaraka.com.tr

Jordan

Jordan Islamic Bank

Established
1978

Branches
100



Jordan's economy is improving gradually, with increases in tourism and exports after several years when regional uncertainty took its toll. A growing budget deficit and depressed trade volumes have held back banking activity. But Syrian refugees have counterbalanced this to some extent, requiring more banking services – both deposit accounts and finance for housing.

Even so, Jordan Islamic Bank's asset growth has slowed. Total assets were nevertheless 3% higher at US$5.9 billion (US$5.8 billion in 2016). While Ijarah Muntahia Bittamleek balances and non-trading investments expanded, other areas were broadly flat.

Total operating income fell by 2% to US$207 million (US$211 million in 2016), partly due to a decline in joint income from sales receivables. After a small rise in expenses to US$93 million (US$90 million in 2016), net income was US$76.4 million ($76.2 million in 2016).

Jordan Islamic Bank launched mobile banking in the year. This allows customers to check their account balances, initiate transactions and convert currencies. It also introduced the Visa Signature card for affluent customers, which provides a range of concierge services including flight reservations, recommendations and travel insurance.

The bank continued to expand, increasing the customer base. Three branches were added, taking the total to 100, while 15 new ATMs increased the network to 205.

Reflecting Jordan Islamic Bank's strong market position, it was named the Best Islamic Bank in Jordan by publications including: The Banker, Global Finance and World Finance.

(All figures in US Dollars unless Stated otherwise)

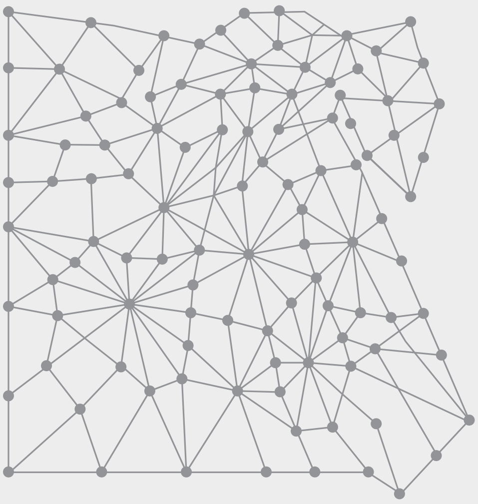
Unit Head:	Mr. Musa Shihadeh
Title:	CEO - General Manager
Address:	P.O. Box 926225, Amman 11190, Jordan
Tel:	+9626 567 7377
Fax:	+9626 566 6326
Website:	jordanislamicbank.com

Egypt

Al Baraka Bank Egypt

Established
1980

Branches
32



Egypt's economic reform programme is beginning to restore the country's finances. Economic activity is expected to accelerate, supported by reforms aimed at correcting fiscal and external imbalances, restoring competitiveness and creating jobs. Notably, foreign exchange reserves rose in the year.

The bank continued its growth in the year. Total assets rose by 18% in local currency to EGP50.3 billion (2016: EGP42.5 billion), boosted by robust growth in Mudaraba financing. Reflecting currency fluctuations, in US dollars total assets increased by 27% to US$2.8 billion (2016: US$2.2 billion).

Total operating income jumped by 32% to EGP1.9 billion (2016: EGP1.4 billion), with substantial growth across all lines of business. The greatest growth came from the bank's share of income from joint accounts, but there was also an improvement in banking services income. In US dollar terms, total operating income fell by 31% to US$104 million (2016: US$150 million). Net operating income in local currency rose 46% to EGP1.4 billion, reflecting efficiency gains as costs did not rise as fast. Net income increased by 42% to EGP725 million (2016: EGP512 million), despite increased provisions.

The bank continued to diversify its range of products, for example launching a new savings account with a minimum deposit of EGP40,000 that attracts a premium rate of return, as well as a special travel product to finance travelling to the 2018 World Cup in Russia and payroll agreements with major Egyptian companies.

Around the year end, the bank introduced its new internet banking service. Preparations are under way for digitisation of operations.

The bank successfully took steps to boost its paid-up capital and capital adequacy ratio during the year.

One new branch opened, broadening the bank's geographic presence and taking the branch network to 32.

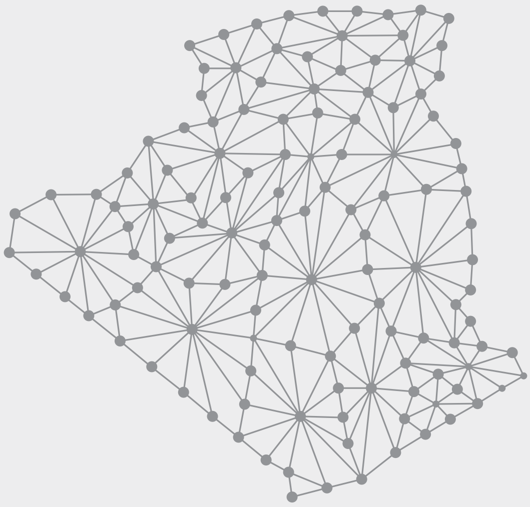
(All figures in US Dollars unless Stated otherwise)

Unit Head:	Mr. Ashraf El Ghamrawi
Title:	Vice Chairman & CEO
Address:	60, Mohie Elddin Abu Elezz Street, P.O. Box 455, Dokki, Giza, Egypt
Tel:	+2023 748 1222
Fax:	+2023 761 1436/7
Website:	albaraka-bank.com.eg

Algeria

Banque Al Baraka D'algerie S.P.A

Established	Branches
1991	29



Despite low oil prices, Algeria's economy achieved solid overall economic growth. However, strong production in the hydrocarbon sector was matched by slowing growth in non-hydrocarbon activities such as manufacturing. The government is acting to reduce its substantial twin deficits – fiscal and current account.

Total assets were up 14% at US$2.15 billion (2016: US$1.88 billion). The growth was mainly in sales receivables, Ijarah Muntahia Bittamleek and balances with banks.

Total operating income was flat at US$82.1 million (2016: US$82.2 million), after a slight rise in the share of income from joint accounts and a fall in revenue from banking services. Net operating income fell 2% to US$48.9 million as operating expenses increased by 3%. Net income further declined by 14% to US$32.0 million (2016: US$37 million) after a rise in taxation and provisions.

The bank continued its drive to diversify. Both a Visa card (gold, platinum and pre-paid) and an interbank corporate card were launched. Additionally, a real estate finance product linked to the public housing programme was developed. Market share in the consumer finance market, including car finance, remained high.

In recognition of its strong position, Global Finance named Al Baraka Algeria the best Islamic bank in Algeria for the fifth year in a row.

(All figures in US Dollars unless Stated otherwise)

Unit Head:	Mr. Mohammed Seddik Hafid
Title:	Board Member & General Manager
Address:	Hai Bouteldja Houidef, Villa No. 1, Rocade Sud, Ben Aknoun, Algiers, Algeria
Tel:	+213 23 38 12 73
Fax:	+213 23 38 12 76/77
Website:	albaraka-bank.com

Bahrain

Al Baraka Islamic Bank B.S.C. (C) - Bahrain

Established
1984

Branches
8

Relatively low oil prices continued to hold back Bahrain's economy. The government is introducing some measures for fiscal consolidation. However, consumer demand remained weak.

Al Baraka Bahrain's growth continued, although at a slower rate than in previous years. Total assets grew by 3% to end the year at US$1.28 billion (2016: US$1.24 billion), with growth mainly in sales receivables and non-trading investments.

The bank's total operating income dipped by 21% to US$31.0 million (2016: US$39.0 million), due largely to a fall in revenue from banking services and other operating income. Net operating income fell to US$0.7 million, after a rise in operating expense. After provisions, the bank made a loss of US$2.64 million at the net income level.

Al Baraka Bahrain launched a Shar'ia-compliant credit card during the year. At the same time, balances with the Al Barakat savings account with prizes reached a new high. Furthermore, institutional trade finance made a significant contribution to revenue.

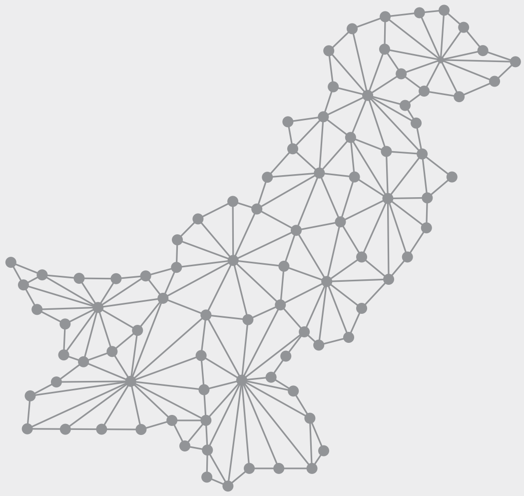
(All figures in US Dollars unless Stated otherwise)

Unit Head:	Mr. Mohamed Al Mutaweh
Title:	Board Member & CEO
Address:	Al Baraka Headquarters - Bahrain Bay, P.O.Box 1882, Manama, Kingdom of Bahrain
Tel:	+973 17 535 300
Fax:	+973 17533 993
Website:	albaraka.bh

Pakistan

Al Baraka Bank (Pakistan) Limited

Established	Branches
2010	188



Pakistan's economic growth accelerated to the fastest rate in many years during 2017. Consumer and investor confidence has grown, following policy measures that have restored macroeconomic stability. Within the banking sector, the State Bank of Pakistan has made promoting Islamic finance an important goal.

Al Baraka Pakistan successfully integrated Burj Bank's activities after the two banks merged in late 2016. Some 36 branches operating close to others were closed, reducing the network to 188. Actions were taken to streamline the product range and activities were progressively moved on to a single core banking system.

Total assets declined 10% to US$1.09 billion, after reaching a high of US$1.2 billion at the 2016 year-end following the merger.

The merger significantly boosted total operating income, which rose by 40% to US$43.7 million (2016: US$31.2 million). However, higher operating expenses drove the bank to an operating loss of US$3.04 million which translated to a net loss of US$2.76 million in net income level after the impact of higher provisions.

There were successes across the product range. The consumer financing business continued to grow, as did the home remittance product. Rahnuma Travel Services added new destinations to its existing packages of Umrah and Haj.

(All figures in US Dollars unless Stated otherwise)

Unit Head:	Mr. Shafqaat Ahmed *
Title:	Board Member & CEO
Address:	Al Baraka House, 162 Bangalore Town, Main Shahrah-e-Faisal, Karachi, Pakistan
Tel:	+92 21 3430 7000
Fax:	+92 21 3453 0981
Website:	albaraka.com.pk

* *Mr. Shafqaat Ahmed retired on 28th February 2018, and Mr. Ahmed Shuja Kidwai has been appointed as the new CEO of Al Baraka Bank (Pakistan) Limited, effective 1st March 2018.*

Tunisia

Al Baraka Bank Tunisia

Established	Branches
1983	37

Tunisia's economy showed some signs of recovery in 2017, with improvements in agriculture and fishing, while the industrial sector still struggled. However, inflation and unemployment maintained their upward paths, the trade deficit widened and financial sector liquidity deteriorated. The dinar continued to depreciate against major currencies.

Al Baraka Tunisia's total assets were almost flat at TND1.28 billion (2016: TND1.29 billion), with reductions in financing and investment were offset by the growth in balances with banks and other assets. However, in US dollars total assets fell to US$518 million (2016: US$552 million).

Total operating income expanded by 21% to TND53.6 million (2016: TND44.3 million) in dinar, boosted by a rise in the share of income from joint accounts and to a lesser extent by increased revenue from banking services. But net operating income fell by 62% to TND2.2 million due to a jump in operating expenses. Net income fell to a net loss of TND3.96 million (2016: TND3.3 million profit) after higher provisions. In US dollars, net income fell to a net loss of US$1.63 million.

The bank continued to diversify its product range. New finance and investment products included Al Baraka Study, Umrah Al Baraka, Al Baraka Travel and Ijara with the option of home ownership.

Al Baraka continued its cautious expansion, adding three new branches to bring the total to 37. The number of customers also continued to grow.

(All figures in US Dollars unless Stated otherwise)

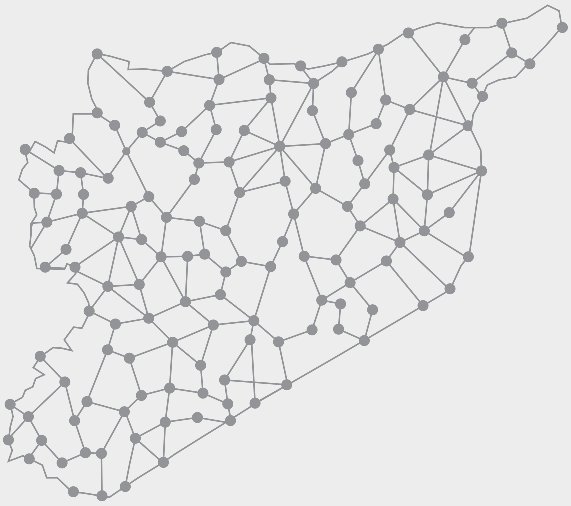
Unit Head:	Mr. Fraj Zaag *
Title:	General Manager
Address:	88, Avenue Hedi Chaker 1002, Tunis, Tunisia
Tel:	+216 71 186 500 / +216 71 186 600
Fax:	+216 71 780 235 / +216 71 908 170
Website:	albarakabank.com.tn

* *Mr. Fraj Zaag retired on 1st January 2018, and Mr. Mohamed El Moncer has been appointed as the new General Manager of Al Baraka Bank Tunisia, effective 2nd January 2018.*

Syria

Al Baraka Bank Syria S.A.

Established	Branches
2009	13



Syria's economy has suffered during the unrest of the past few years. The middle of the country was increasingly stable in 2017, although unrest continued in the north and south. Unemployment remains high, reportedly at 80%, as does inflation. However, there are signs of improvement in the quality of infrastructure.

Al Baraka Syria's total assets grew by 58% to US$754 million (2016: US$478 million), with increases in cash held with the central bank and other banks, as well as increases in Mudaraba financing.

Total operating income fell by 70% to US$10.6 million, despite a rise in the share of income from joint accounts mainly due to the non recurrence of the exceptional foreign currency gain booked in the previous year. Net operating income fell by 85% to US$4.26 million due to a small rise in operating expenses. Net income fell to US$0.6 million (2016: US$24.7 million).

The bank prepared the first e-payment system for launch in Syria. Launch is expected in 2018. It also launched the Takween 2017 Programme for Syrian Entrepreneurship.

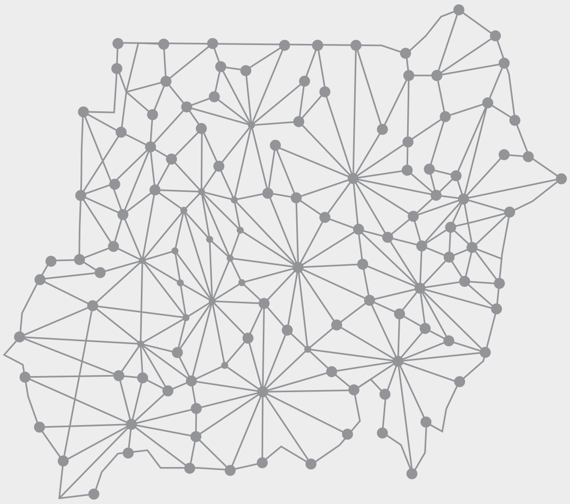
(All figures in US Dollars unless Stated otherwise)

Unit Head:	Mr. Mohammed Halabi
Title:	Chief Executive Officer
Address:	Alshahbander Street, P.O.Box 100, Damascus, Syria
Tel:	+963 11 4437 8 20
Fax:	+963 11 4437 8 10
Website:	albarakasyria.com

Sudan

Al Baraka Bank Sudan

Established	Branches
1984	27



Sudan's economy continued its growth, despite a severe shortage of foreign exchange, high inflation and a large trade deficit. Notably, the US relaxed economic sanctions on Sudan. This is expected to gradually improve the inflow of foreign direct investment and lead to the renewed integration of Sudanese banks into the international banking system.

Al Baraka Sudan's total assets grew by 61% to SDG4.46 billion (2016: SDG2.78 billion), supported by a big increase in non-trading investments and sales receivables. In US dollars, total assets rose by 28% to US$500 million (2016: US$391 million).

Total operating income rose by 16% to SDG385 million (2016: SDG332 million), boosted mainly by a rise in the share of income from joint accounts. Net operating income rose by only 2% to SDG190 million due to a rise in operating expenses. Net income rose by 10% to SDG157 million (2016: SDG142 million) after reductions in provisions and taxation. In US dollars, net income was slightly lower at US$20.9 million.

The bank continued to diversify its products, launching a pre-paid card and a mobile payment service. Further product launches are being planned.

(All figures in US Dollars unless Stated otherwise)

Unit Head:	Mr. Abdullah Khairy Hamid
Title:	General Manager
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Fax:	+249183 788 585
Website:	albaraka.com.sd

South Africa

Al Baraka Bank Limited - South Africa

Established
1989

Branches
12

Political uncertainty in South Africa is impacting business confidence, with low growth and high unemployment as well as volatility in the Rand.

Despite this situation in the country, there was a further acceleration in Al Baraka South Africa's robust growth, as total assets increased by 23% to US$475 million (2016: US$387 million), with Musharaka financing standing out as an area of growth.

Total operating income increased by 29% to US$22.5 million (2016: US$17.4 million), boosted mainly by a rise in the share of income from joint accounts. Net operating income rose by 36% to US$5.92 million due to tight control on operating expenses. Net income rose by 41% to US$4.02 million.

The Corporate Saver Account, launched in 2016 for lawyers holding money in trust for clients, continued to attract a high level of deposits. A tax-free savings account was launched following government regulations designed to encourage saving, and attracted significant deposits.

In recognition of its market position, Global Finance magazine named Al Baraka South Africa as Best Islamic Financial Institution in South Africa 2017.

(All figures in US Dollars unless Stated otherwise)

Unit Head:	Mr. Shabir Chohan
Title:	Board Member & CEO
Address:	2 Kingsmead Boulevard, Kingsmead Office Park, Stalwart Simelane Street, P.O.Box 4395, Durban 4000, South Africa
Tel:	+27 31 364 9000
Fax:	+27 31 364 9001
Website:	albaraka.co.za

Lebanon

Al Baraka Bank Lebanon S.A.L.

Established	Branches
1991	7

Lebanon’s economy maintained its growth rate in 2017, supported by a rise in the number of tourists and hotel occupancy as well as a recovery in exports. However, the economy is operating at considerably below full employment and potential output.

Against this backdrop, Al Baraka Lebanon’s total assets increased by 12% to US$355 million (2016: US$316 million), supported by a growth in sales receivables and balance with banks.

Total operating income grown by 6% to reach US$8.65 million (2016: US$8.2 million), boosted by a rise in self financed income and the share of income from joint accounts. At the net operating income and net income levels, the bank made losses of US$2.06 million and US$2.08 million respectively.

The bank worked to introduce a wider range of products, diversifying its income and growing the customer base. Around the end of the year, it reached agreement with Libanpost, the national post provider, to offer Al Baraka services through its branches. Additionally, a range of innovative services was under development for introduction in 2018.

(All figures in US Dollars unless Stated otherwise)

Unit Head:	Mr. Mutasim Mahmassani
Title:	Board Member & General Manager
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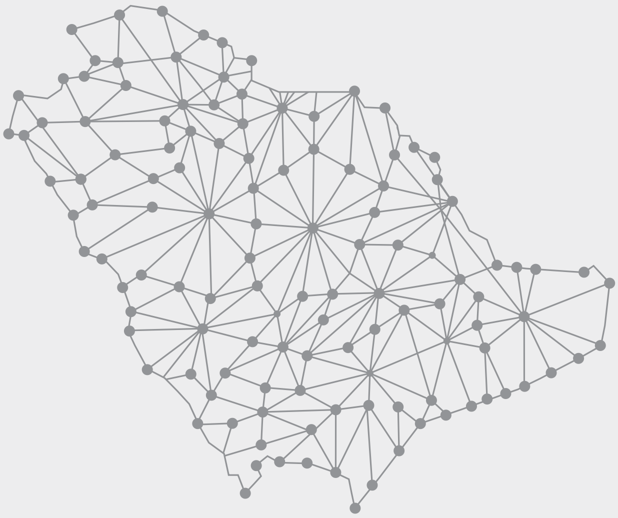
Tel:	+96117 48061 - 65
Fax:	+96117 48061 - 65 Ext: 700
Website:	al-baraka.com

Saudi Arabia

Itqan Capital

Established
2007



Based in Saudi Arabia, Itqan Capital is active in asset management, principal investment, advisory, custodial and administration services. As the only dedicated investment banking unit within the Group, it is strategically important.

Saudi Arabia's economy is in a multi-year adaptation to a lower oil price. It grew moderately in 2017, and is introducing new taxes to improve the fiscal balance. Saudi institutional and high-net-worth individuals have reacted to the more difficult conditions by becoming increasingly risk averse.

In these tough conditions, Itqan's total operating income fell to a loss of US$0.3 million. A rise in revenue from banking services was offset by a fall in income from investments such as trading activities. The net loss for the year was US$3.8 million.

Total assets fell by 13%, to US$28.0 million due to a fall in non-trading investments, although there was a rise in trading securities.

The Itqan Murabahat and Sukuk Fund continued to have a strong position in the local market for money market funds. Additionally, Itqan won several advisory agreements.

(All figures in US Dollars unless Stated otherwise)

Unit Head:	Mr. Abdullah Farid Shaker
Title:	Managing Director & CEO
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Tel:	+966 12 510 6030
Fax:	+966 12 510 6033
Website:	itqancapital.com

President & Chief Executive's Report (Continued)

Morocco

BTI Bank

Established
2017

Branches
1

Like many African economies, Morocco's depends largely on agricultural products. In 2017, a strong recovery in agriculture boosted the overall economy and supported consumer spending.

ABG partnered with the BMCE Bank of Africa in 2017 to launch Bank al Tamweel wa Inma (BTI Bank), a new participation bank. Headquartered in Casablanca, BTI Bank aims to have a network of 37 branches spread across Morocco's cities by 2022, supported by electronic channels.

We believe that the Moroccan economy has considerable potential and that this is a good time to launch an Islamic bank, just as Morocco's Shar'ia banking regulations are being developed.

The total assets as of the year-end reached around US$34.0 million.

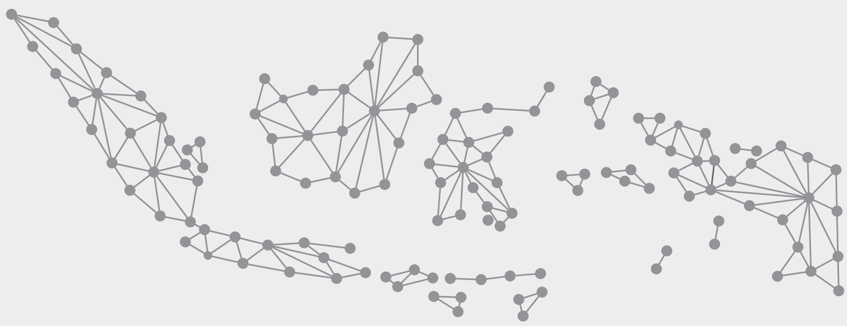
(All figures in US Dollars unless Stated otherwise)

Unit Head:	Mr. Mohamed Maarouf
Title:	Director General
Address:	157, Avenue Hassan ll, Casablanca 20 000, Morocco
Tel:	+212 5 20 51 51 51
Fax:	+212 5 22 26 47 89
Website:	btibank.ma

Indonesia

Al Baraka Banking Group (Representative Office)

Established
2008



Indonesia's economy continued to expand at a rapid rate, underpinned by stronger-than-expected growth in China and Europe. The government has been introducing prudent reforms and has plans for much-needed infrastructure investment. The IMF forecasts GDP growth of 5.2% in 2017.

ABG's Indonesia representative office reports on the potential for the Group to do business in Indonesia or to acquire a local bank. It maintains contact with local regulators and major banking groups while preserving ABG's image and brand value. With trade flows between Indonesia and many of the Group's markets continuing to expand, the representative office identifies opportunities for the units.

(All figures in US Dollars unless Stated otherwise)

Unit Head:	Ms. Nurul Bariah
Title:	Chief Representative
Address:	Ravindo Building, 10th Floor, Jalan Kebon Sirih, No. 75, Jakarta Pusat 10340, Indonesia
Tel:	+62 21 316 1345
Fax:	+62 21 316 1074
Website:	albaraka.com

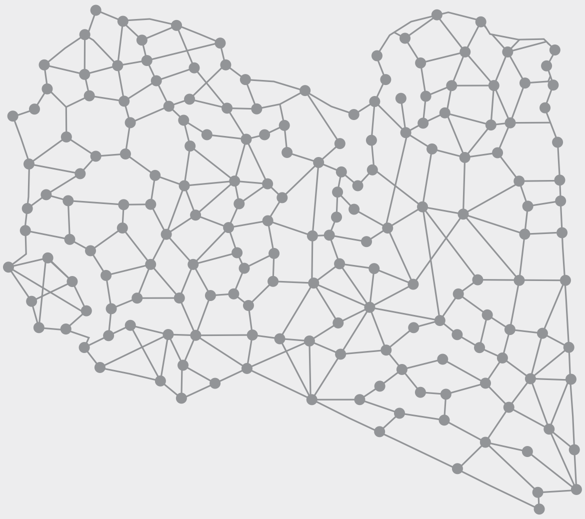
President & Chief Executive's Report (Continued)

Libya

Al Baraka Banking Group (Representative Office)

Established

2011



Libya's protracted political stand-off, coupled with low oil prices, continues to hold back the economy. The outlook depends on restoring lasting stability, as well as programmes to rebuild economic and social infrastructures.

Our representative office helps ABG units to establish and maintain relationships with local banks and regulators. It has been facilitating contacts between ABG units and local banks, as well as fielding enquiries from local banks that want to convert to Islamic banking.

Once the political situation is resolved, there are promising signs for ABG's Libyan business.

(All figures in US Dollars unless Stated otherwise)

Unit Head:	Mr. Mohamed Elkhazmi
Title:	Chief Representative
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Tel:	+218 (21) 3362310 / +218 (21) 3362311
Fax:	+218 (21) 3362312
Website:	albaraka.com

Committing to shortening distances for those who endeavor to impact the world

Corporate Governance

Al Baraka Banking Group was formed in 2002 to bring together 11 individual banks, sharing common ownership and ethical vision but separate in all other respects, under a single management group focused on the achievement of strong yet sustainable financial returns and the building of consistent shareholder value over the long term. From the beginning, ABG regarded the inculcation of a disciplined corporate governance and risk management culture as a fundamental prerequisite to effective management of the Group. The adoption and maintenance, through continual and vigilant review, of the highest standards of corporate governance and risk management have thus been key to building a strong, ethical, responsible organisation. This has been essential for establishing an overarching governing structure under which the functions, roles and responsibilities are clearly divided between the Board of Directors and Executive Management, officers and staff of the organisation.

THE BOARD OF DIRECTORS

The Board of Directors is responsible for the establishment and oversight of the Group's business strategy and priorities, for setting its high-level policies and for overall management, and is accountable to shareholders for the financial and operational performance of the Group. It is responsible for the raising and allocation of capital, monitoring of Executive Management and its conduct of the Group's operations, for making critical business decisions and for building long-term shareholder value. The Board ensures that the Group manages risk effectively, through approving and monitoring the Group's risk appetite, and identifying and guarding against the longer term strategic threats to the business.

The Board is also responsible, inter alia, for:

- setting and reassessing periodically the Group's corporate goals and objectives;
- establishing policies to further the achievement of the Group's corporate goals and objectives;
- establishing and regularly reviewing the management structure and responsibilities, and monitoring the effectiveness of Executive Management, including its ability to plan and execute strategies;
- holding Executive Management accountable for results;
- putting in place adequate policies and processes for approving budgets, and reviewing performance against those budgets and against key performance indicators;
- ensuring that an adequate, effective, comprehensive and transparent corporate governance framework is in place;
- establishing and approving policies and procedures designed to ensure ethical behaviour and compliance with laws and regulations, auditing and accounting standards and the Group's own corporate governance policy;
- ensuring that ABG and its subsidiaries' operations are supported by an appropriate control environment, i.e. that internal audit, compliance, risk management and finance and reporting functions, are well resourced and structured;
- ensuring that the Group's operations are supported by a reliable, sufficient and well-integrated information system;
- recognising and communicating to Executive Management the importance of the internal audit function at ABG and its subsidiaries, periodically reviewing internal control procedures, and taking measures to enhance the function of internal audit and to act in a timely and effective manner on its findings;
- approving the writing off of credit facilities and investments where appropriate, in accordance with the Group's policies and procedures;
- approving strategic investments by ABG and its subsidiaries;
- monitoring potential conflicts of interest and preventing abusive related party transactions;
- approving material transactions outside the normal course of business or in excess of the limits of approval authority delegated to Executive Management;
- ensuring the preparation of financial statements which accurately disclose the Group's financial position, on a regular and consistent basis, and for reviewing and approving for dissemination its periodic financial statements and annual reports;
- approving all significant changes in the Group's accounting and reporting policies;
- ensuring compliance at all times with all relevant requirements of Shari'a and Islamic Accounting Standards, issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
- ensuring that the Group establishes and maintains an approved employee Code of Conduct and is in compliance with it;
- ensuring that the control environment maintains necessary client confidentiality, and that clients' rights and assets are properly safeguarded;
- convening and preparing the agenda for shareholder meetings;
- ensuring equitable treatment of all shareholders including minority shareholders; and
- performing any other functions required of the Board of Directors under applicable laws and regulations.

In its regular review of the Group's strategy, the Board reviews the Group's business plans and the inherent level of risk in those plans. It also assesses the adequacy of capital to support the business risks of the Group; sets performance objectives; and oversees major capital expenditures, divestitures and acquisitions.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness, and for defining and enforcing standards of accountability that enable Executive Management to achieve the Group's corporate objectives. The Board ensures that the systems and controls framework, the Board structure and the organisational structure of the Group are appropriate for the Group's business and associated risks, and regularly assesses the systems and controls framework to that end. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group. These are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations. This system is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

In meeting its responsibility to ensure efficient governance in all matters related to ABG, the Board has established a written compliance policy governing the Group's compliance with all laws and regulations; in particular those enunciated by the Central Bank of Bahrain (CBB) and other local regulators. The Board has delegated responsibility for monitoring compliance to the President & Chief Executive. This responsibility is carried out through a dedicated Compliance Department, with a mandate to cover all aspects of compliance including: formulation of effective policies and processes for the management of the Group's compliance risk; assisting Executive Management and staff in managing risk; advising on laws and regulations and applicable compliance standards; disseminating compliance policies and providing guidelines to ABG staff members; ensuring an effective compliance methodology; providing periodical reports to the Board in connection with compliance controls; and establishing operational controls and a robust Know Your Customer (KYC) and Anti-Money Laundering (AML) framework. ABG is continuously enhancing its compliance framework and that of each of its subsidiaries.

In 2010, the CBB introduced new requirements to be met by all licensees under Volumes 2 and 6 of Module HC of its Rulebook, with respect to corporate governance principles. These requirements were in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry & Commerce of the Kingdom of Bahrain, international best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision and related high-level controls and policies. In 2014, the CBB introduced further requirements addressing the matter of remuneration of Approved Persons and Material Risk Takers (see below), which requirements were duly adopted by ABG. ABG conducts annually detailed internal assessments to ensure compliance with these requirements and, in the event that any shortfall is identified, sets specific milestones for implementation of measures to address the shortfall. The CBB, ABG's shareholders, the Board of Directors and Executive Management are all kept fully appraised of such shortfalls, if any, and the milestones set. In accordance with this procedure, ABG earlier applied for and received the CBB's consent to appoint the Chairman of the Board of Directors, although he is not an independent director as defined in the CBB Rulebook.

ABG continuously ensures that the Group's minority shareholders are well represented on the Board of Directors through the independent directors, who have additional responsibility for protection of the rights of minority shareholders.

The Board of Directors meets regularly (at least four times a year) and has a formal schedule of matters reserved for it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational, risk management and information technology development) and the performance of Executive Management. All Directors attend all Board meetings whenever possible and in any event not less than 75% of meetings in any year, and maintain informal contact among themselves between meetings.

The Chairman is responsible for leadership of the Board and for its efficient functioning. He ensures that all members receive an agenda, minutes of prior meetings and background information in writing before each Board meeting and between meetings when necessary. The Board and its Committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its Committees and all Directors individually have access to Executive Management, external legal or other professional consultants and advisors at the Group's expense, and to the Board Secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed. The Board encourages participation by members of Executive Management at Board meetings, if appropriate, regarding matters which the Board is considering and where the President & Chief Executive believes management should have exposure to the Board.

Under ABG's Articles of Association, the Board of Directors shall consist of no fewer than five and no more than 15 members. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months with the approval of the Minister of Industry & Commerce of Bahrain.

There is no maximum age limit at which a Director must retire from the Board of Directors. Each Director's membership of the Board shall terminate upon the expiry of his/her term, or upon the resolution of the shareholders in General Meeting, or as a result of one of a number of specified events or circumstances, including:

- the original appointment being found to be contrary to the provisions of ABG's Articles of Association;
- abuse by the individual of his/her position as Director or failure to comply with the provisions of his/her appointment or the terms of the Charter of the Board or of its Committees;
- the individual's failure to attend three consecutive Board meetings without lawful excuse notified in writing to the Board;
- the individual's formal resignation from the Board following reasonable prior notice; or
- occupation of any other remunerative office within ABG unless specifically approved by the Board of Directors.

When an announcement is made requesting nominations for the position of membership of the Board of Directors to replace those members whose three-year term is due to expire, such nominations must be submitted to the Chairman of the Board, within the time frame provided in the announcement, then to the Board Affairs and Remuneration Committee for it to make its recommendations to the Board. As part of the nomination process, each nomination must comply with local rules and regulations, and must be submitted for approval to the CBB in order to ensure compliance with the CBB's "Fit and Proper" criteria. The names of all nominated individuals so approved by the CBB are then submitted to the shareholders at the next AGM for consideration and election. Election of ABG Directors takes place in accordance with the rules and procedures set out in the Commercial Companies Law and ABG's Articles of Association.

In line with best corporate governance best practice, there is a succession plan for the Board of Directors. This is reviewed annually and submitted to the CBB.

Corporate Governance (Continued)

Each new Director elected to the Board receives a written appointment letter, detailing the powers, duties, responsibilities and obligations of that Director, and other relevant terms and conditions of his appointment.

There are currently 13 Directors on the Board. They have varied backgrounds and experience and are, individually and collectively, responsible for performing the responsibilities of the Board, and for exercising independent and objective judgement. No individual Director or group of Directors has unfettered powers of decision making or dominates the Board's decision making. Other than the President & Chief Executive, all Directors are non-executive and fully independent of management, and are individually responsible for scrutinising and challenging management decisions and performance. The posts of Chairman, Vice Chairman and President & Chief Executive are held by different Directors, and the President & Chief Executive has separate, clearly defined responsibilities. The size and composition of the Board and its Committees are regularly assessed, while the effectiveness, contribution and independence of individual Directors are assessed annually in light of interests disclosed and conduct. The independence or non-independence of Directors is, likewise, reviewed annually.

All Directors are remunerated solely by means of an annual retainer fee and sitting fees paid for each meeting attended. Their travel expenses are also reimbursed as appropriate.

The Board of Directors has adopted a formal Code of Business Conduct and Ethics applicable to Directors and Executive Management, officers, employees and agents, consultants and others representing or acting for the Group. Details of the Code are provided in the Additional Public Disclosures section of this report.

In line with international best practice and the CBB Rulebook, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of more than one third of Directors as independent Directors, as defined in the CBB Rulebook.

In 2017, the shareholders elected the following members of the Board:

Non-Executive Directors

1. Shaikh Saleh Abdullah Kamel – Chairman
2. Mr. Abdullah Saleh Kamel – Vice Chairman
3. Mr. Abdul Elah Sabbahi
4. Mr. Mohyedin Saleh Kamel
5. Dr. Khalid Abdulla Ateeq

Independent Directors

1. Mr. Abdulla A. Saudi – Vice Chairman
2. Mr. Saleh Mohammed Al Yousef
3. Mr. Ebrahim Fayez Al Shamsi
4. Mr. Jamal Bin Ghalaita
5. Dr. Bassem Awadallah
6. Mr. Saud Saleh Al Saleh
7. Mr. Yousif Ali Fadil Bin Fadil

Executive Director

Mr. Adnan Ahmed Yousif – President & Chief Executive

All current Directors were elected for a 3-year term on 20 March 2017.

BOARD COMMITTEES

The Board has put in place a number of Board committees, membership of which is drawn from the Board membership and to which it has delegated specific responsibilities. The principal Board committees are:

Board Executive Committee

The Board Executive Committee is chaired by Mr. Abdullah Saleh Kamel (Non-Executive Director), and the other members are Mr. Adnan Ahmed Yousif, President & Chief Executive (Executive Director), Mr. Abdul Elah Sabbahi (Non-Executive Director) and Mr. Saleh Mohammed Al Yousef (Independent Director). The Board Executive Committee comprises a minimum of four Directors and meets at least four times a year. The Board has delegated to the Board Executive Committee, under a formal written charter adopted by it, the responsibility to make recommendations to the Board, for the Board's approval, concerning the Group's overall strategies and business plan, or any significant change to them, or any major change to its capital or organisation structure, assets or investments.

Board Affairs and Remuneration Committee

The Board Affairs and Remuneration Committee operates in accordance with a formal written charter adopted by it. The Committee is chaired by Mr. Saud Saleh Al Saleh (Independent Director), and its other members are Mr. Ebrahim Fayez Al Shamsi (Independent Director) and Mr. Yousef Ali Fadil Bin Fadil (Independent Director). The Committee meets at least twice a year and considers all material elements relating to remuneration policy, including, inter alia, the approval of the remuneration of the Directors, based on their attendance at Board and Committee meetings. It also recommends to the Board the level of remuneration of the Executive Management members and other ABG employees under an approved performance-linked incentive structure. The Committee also performs the role of a Nominations Committee, as described below.

The Committee conducts an annual evaluation of the performance of the Board, Board Committees and the President & Chief Executive. When an issue relating to the personal interest of a Director is discussed in the Committee, the interested Director withdraws from the meeting and abstains from voting. The Committee is responsible for identifying persons qualified to become members of the Board or the Chief Executive Officer, the Chief Financial Officer, the Board Secretary and other executive officers considered appropriate (except for the Head of the Internal Audit Department), and for making recommendations accordingly. It is also responsible for inducting, educating and orienting new Directors, and for conducting seminars and other training programmes from time to time for members of the Board.

Board Audit and Governance Committee

The Board Audit and Governance Committee is chaired by Mr. Ebrahim Fayez Al Shamsi (Independent Director). Other members are Dr. Bassem Awadallah (Independent Director), and Mr. Mohyedin Saleh Kamel (Non-executive Director). The Committee is governed by a formal written Charter, adopted by it and approved by the Board. The Committee meets formally at least four times a year. External auditors attend at least one meeting annually; moreover, external auditors have unrestricted access to the Committee and its Chairman throughout the year.

The Board of Directors has delegated to the Board Audit and Governance Committee the responsibility for ensuring that an effective internal auditing and continuous internal controls monitoring environment, and a sound system of accounting and financial control, are in place. The Committee achieves this through regular review of internal audit reporting, external auditors' management letters, central banks' inspection reports and the Group's accounting and financial policies and practices, financial reporting and disclosure controls and procedures, and the adequacy and effectiveness of the internal control procedures at the Head Office and at ABG's subsidiaries. The Committee considers all matters relating to financial control and reporting, internal and external audits and their scope and results, risk management and compliance with regulatory and legal requirements and accounting standards. It also considers and approves the annual audit plans, ensures coordination between the internal and external auditors, monitors the independence, qualifications, effectiveness and performance of the external auditors, and makes recommendations to the Board regarding the appointment, retirement and remuneration of the external auditors and the appointment of the Head of the Group's Internal Audit Department.

The Committee reviews the Group's annual and interim financial statements to recommend their approval to the Board of Directors, the adequacy of provisions and any reports by external consultants on specific investigative or advisory engagements.

The Committee ensures that there are in place systems of control appropriate to the business of the Group and the information needs of the Board. These include systems and functions for identifying and monitoring risk, the financial position of the Group and compliance with applicable laws, regulations and best banking practice. The Committee ensures that all such information is produced on a timely basis. The various internal controls and processes are subject to independent review by the Group's Internal Audit Department, which reports directly to the Committee, as stated above, and external auditors and regulators as appropriate. Management letters and other issues of importance raised by external auditors, and inspection reports issued by the CBB's inspectors, or inspectors of any other applicable authorities where ABG or its subsidiaries operate, are reviewed by the Committee once issued. Acting on behalf of the Board, the Committee ensures that appropriate corrective action is taken.

The Committee also oversees and monitors the implementation of the corporate governance policy framework, providing the Board with reports and recommendations based on its findings.

The Board has adopted a 'whistleblower' programme, allowing employees confidentially to raise concerns about possible improprieties in financial or legal matters. Under the programme, concerns may be communicated directly to any member of the Board Audit and Governance Committee or, alternatively, to an identified officer or employee who, in turn, reports the matter to the Committee.

Board Risk Committee

The Board Risk Committee is chaired by Mr. Yousif Ali Fadil Bin Fadil (Independent Director), with its other members being Mr. Jamal Bin Ghalaita (Independent Director) and Dr. Khalid Ateeq (Non-executive Director). The Board Risk Committee meets formally at least twice a year but may meet more frequently at the request of the Chairman of the Committee. It can call for the attendance of the President & Chief Executive, Head of Credit and Risk Management and other senior executives of the Group at any of its meetings.

The Group's risk appetite is determined by the Board, based on the recommendations of the Board Risk Committee. The Board Risk Committee is responsible for setting acceptable levels of risks to which the Group may be exposed, for approving management's strategy for the managing of risk and for ensuring that all necessary steps are taken by management to identify, measure, monitor and control risk. The Committee's objective is to oversee the Group's risk management systems, practices and procedures, as well as to ensure effective risk identification, management and compliance with internal guidelines and external requirements. The Committee reviews issues identified by the Internal Audit and Compliance departments of ABG and/or any of its subsidiaries, such as weaknesses or breakdowns in controls.

Board Sustainability and Social Responsibility Committee

The Board Sustainability and Social Responsibility Committee is chaired by Dr. Bassem Awadallah (Independent Director), and other members are Mr. Abdul Elah Sabbahi (Non-Executive Director) and Mr. Saleh Mohammed Al Yousef (Independent Director). The Committee leads the Al Baraka Sustainability and Social Responsibility Programme. It oversees the formulation of policies and strategies by Executive Management, intended to make ABG and its subsidiaries a model Islamic banking group, offering banking and financial services in a sustainable and socially responsible manner and in conformity with the objectives of Shari'a.

The Committee aims to adhere to the spirit of Islamic finance that enjoins Sustainability and Social Responsibility as a principal feature of Islamic banking and finance. The Committee demonstrates its commitment to the spirit of Sustainability and Social Responsibility inherent in Islamic finance by setting various quarterly and annual targets for Executive Management.

All minutes and reports of meetings of the Committee are disseminated to all members of the Board of Directors.

UNIFIED SHARI'A SUPERVISORY BOARD

ABG's Unified Shari'a Supervisory Board (USSB) is elected by the shareholders at Annual General Meeting upon recommendation by the Board of Directors. The USSB is actively involved in the development of the Group's products and services, and certifies or oversees the certification by individual subsidiaries' USSBs of every product and service accordingly as complying with the standards and principles of Shari'a.

The USSB operates independently within its own charter which covers its policies, procedures and responsibilities. In carrying out its responsibilities, the USSB has full access to the Board, Executive Management and Management and Officers of the subsidiaries. In addition to reviewing and advising on Shari'a compliance of all products and services, it oversees the audit of the operations of the Group from a Shari'a perspective.

The USSB meets at least six times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

DIRECTOR'S ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2017

Name of the Board/ Committees	No. of meetings in 2017	Dates of the meetings	Member's name	No. of meetings attended	
Board of Directors	7	22/02/2017 20/03/2017 10/05/2017 04/06/2017 07/08/2017 13/11/2017 24/12/2017	Sh. Saleh Abdullah Kamel	5	
			Mr. Abdulla A. Saudi	7	
			Mr. Abdullah Saleh Kamel	5	
			Mr. Saleh Mohammed Al Yousef	7	
			Mr. Adnan Ahmed Yousif	7	
			Mr. Abdul Elah Sabbahi	7	
			Mr. Ebrahim Fayez Al Shamsi	7	
			Mr. Jamal Bin Ghalaita	7	
			Mr. Yousef Ali Fadil Bin Fadil	7	
			Dr. Bassem Awadallah	7	
			Mr. Mohyedin Saleh Kamel	6	
			Mr. Saud Saleh Al Saleh	6	
			Dr. Khalid Abdulla Ateeq	5	■
Board Executive Committee	4	29/01/2017 06/05/2017 27/09/2017 03/12/2017	Mr. Abdullah Saleh Kamel	3	
			Mr. Saleh Mohammed Al Yousef	3	▲
			Mr. Adnan Ahmed Yousif	4	
			Mr. Abdul Elah Sabbahi	4	
			Mr. Yousef Ali Fadil Bin Fadil	1	●
Board Audit & Governance Committee	5	12/02/2017 10/05/2017 07/08/2017 13/11/2017 20/12/2017	Mr. Saleh Mohammed Al Yousef	1	●
			Mr. Ebrahim Fayez Al Shamsi	5	
			Dr. Bassem Awadallah	5	
			Mr. Mohyedin Saleh Kamel	2	▲
Board Affairs & Remuneration Committee	4	20/02/2017 04/06/2017 14/09/2017 09/12/2017	Mr. Saleh Mohammed Al Yousef	1	●
			Mr. Ebrahim Fayez Al Shamsi	4	
			Mr. Yousef Ali Fadil Bin Fadil	4	
			Mr. Saud Saleh Al Saleh	3	▲
Board Risk Committee	3	02/03/2017 10/05/2017 11/11/2017	Mr. Jamal Bin Ghalaita	3	
			Mr. Yousef Ali Fadil Bin Fadil	2	▲
			Mr. Mohyedin Saleh Kamel	1	●
			Mr. Saud Saleh Al Saleh	1	●
			Dr. Khalid Abdulla Ateeq	2	▲
Board Sustainability & Social Responsibility	3	21/02/2017 03/06/2017 24/12/2017	Mr. Saleh Mohammed Al Yousef	2	▲
			Mr. Adnan Ahmed Yousif	1	●
			Mr. Abdul Elah Sabbahi	3	
			Dr. Bassem Awadallah	3	

■ **Was not a Board Member in Meeting No. 1 & 2**

- ▲ Executive Committee: Was not a Member in Meeting No. 1
- ▲ Audit & Governance Committee: Was not a Member in Meeting No. 1
- ▲ Remuneration Committee: Was not a Member in Meeting No. 1
- ▲ Risk Committee: Was not a Member in Meeting No. 1
- ▲ Sustainability & Social Responsibility: Was not a Member in Meeting No. 1

- ● Executive Committee: Just attended Meeting No. 1 as a Member
- ● Audit & Governance Committee: Just attended Meeting No. 1 as a Member
- ● Remuneration Committee: Just attended Meeting No. 1 as a Member
- ● Risk Committee: Just attended Meeting No. 1 as a Member
- ● Sustainability & Social Responsibility: Just attended Meeting No. 1 as a Member

BOARD OF DIRECTORS' PROFILES

Shaikh Saleh Abdullah Kamel

Chairman

Chairman of Dallah Albaraka Holding Company E.C.; Chairman, General Council for Islamic Banks and Financial Institutions; Chairman, Jeddah Chamber of Commerce & Industry; and Chairman, the Islamic Chamber of Commerce, Industry and Agriculture. Member of the Advisory Panel of the Islamic Development Bank. He is also a Director of several international organisations. A highly-respected international businessman and pioneer of Islamic banking, with experience spanning over five decades, Shaikh Saleh Abdullah Kamel founded Dallah Albaraka Group and the Al Baraka Banking Group. Recognising his achievements and his role in promulgating Islamic economic principles — encapsulated in the message of his Group: "Reconstruction of the Earth" — Shaikh Saleh Kamel has been awarded the highest of certificates, trophies and accolades. A Saudi national, he holds a Bachelor of Commerce degree.

Mr. Abdulla A. Saudi

Vice Chairman

Chairman, United Bank for Commerce and Investments, Tripoli, Libya and Executive Chairman, ASA Consultants W.L.L., Bahrain. Board member of Credit Lebanese Bank Beirut. Previously, Founder, President & Chief Executive, Arab Banking Corporation (B.S.C.), Bahrain from 1980 to 1994. He also founded Arab Financial Services (E.C.) and ABC Islamic Bank (E.C.), Bahrain. Prior to that he was the Founder, Chairman and General Manager of Libyan Arab Foreign Bank, Tripoli 1972-1980. In addition, he held positions at the Central Bank of Libya for 14 years. Mr. Saudi is a world-renowned international banker of over five decades standing. He has received many international accolades and decorations, including: the title of one of the "Most Innovative Bankers" in 1980 at a presentation at Georgetown University, Washington D.C.; "Best Banker" award from the Association of Arab American Banks in 1990; "Arab Banker of the Year" award from the Union of Arab Banks in 1993. He also has several gold medals and awards, notably those bestowed by the King of Spain and the President of Italy in 1977, and the Grand Medal of the Republic of Tunisia in 1993. Recently, he was honoured with the Integrity Award for Combating Forgery by the Arab Union - subordinate of the Arab League – in 2012. Mr. Saudi, a Libyan national, holds a Certificate in Management and Accounting.

Mr. Abdullah Saleh Kamel

Vice Chairman

President and Chief Executive Officer of Dallah Albaraka Group, Saudi Arabia. Chairman of Aseer Company; Chairman of Amlak Real Estate Development and Finance; Chairman of Okaz Press and Publishing Corporation; Vice-Chairman of King Abdullah Economic City Eimaar. Previously held executive positions at Dallah Group, culminating in the position of Vice President for Business Sector until 1999 when he assumed his current position. Mr. Abdullah Kamel has over 29 years' experience. Mr. Abdullah Kamel is active in public and charitable activities through his membership of many international and local organizations and associations, such as Jeddah Chamber of Commerce (a Board Member twice), Young Presidents' Organization, Friends of Saudi Arabia, The Centennial Fund and the Board of Trustees of the Prince of Wales Business Leaders Forum. Mr. Abdullah Kamel, a Saudi national, studied Economics at University of California, Los Angeles, USA.

Mr. Saleh Mohammed Al Yousef

Board Member

Board Member, Al Baraka Bank Lebanon. Previously, Chairman and Managing Director of The Industrial Bank of Kuwait K.S.C. Prior to that, Mr. Al Yousef held executive positions with The Industrial Bank of Kuwait and the Central Bank of Kuwait. He has also served as Chairman of ABC Islamic Bank (E.C.), Bahrain and of the Supervisory Board of Arab Banking Corporation – Daus & Co. GmbH, Frankfurt; as Chairman and Managing Director of Afkar Holding Co.; Commissioner, Capital Markets Authority, Kuwait; and on the Boards of Directors of the Financial Securities Group; Gulf Bank K.S.C. Kuwait; Arab Banking Corporation (B.S.C.), Bahrain; Ahli United Bank B.S.C., London; and Gulf Investment Corporation. He has over 35 years' experience in the banking industry. A Kuwaiti national, he holds a Bachelor of Commerce Degree from Kuwait University.

Mr. Adnan Ahmed Yousif

President & Chief Executive

Mr. Yousif has led Al Baraka Banking Group (ABG) since inception. He is the Chairman of Al Baraka Turk Participation Bank, Banque Al Baraka D'Algerie, Al Baraka Bank Ltd. South Africa, Al Baraka Bank Lebanon, Jordan Islamic Bank, Al Baraka Bank Egypt, Al Baraka Bank Syria, Al Baraka Bank Sudan, Al Baraka Bank Pakistan Ltd., Vice Chairman of Al Baraka Islamic Bank, Bahrain and a Board member of both Al Baraka Bank Tunisia and Itqan Capital in Saudi Arabia. Mr. Yousif was Chairman of the Union of Arab Banks, Lebanon for two terms (2007-2013). He is the recipient of the Medal of Efficiency, a unique honor conferred by His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain during the year 2011. He holds the title of the CSR International Ambassador (Kingdom of Bahrain) from the CSR Regional Network, and was twice named Islamic Banker of the Year (2004 and 2009). In addition, he was awarded the 2012 "LARIBA Award for Excellence in Achievement". The Al Jinan University of Lebanon has granted him an Honorary Doctorate of Philosophy in Business Administration and he has been awarded the Accolade of the Sudanese Presidency for Excellency in Social Responsibility. In 2016, Mr. Yousif was decorated with the Title of "High Commissioner to preach the United Nations Sustainable Development Goals 2030". He also won the Gold Award for Sustainable Development at Oman International Conference on Social Responsibility 2016. In 2017, Mr. Yousif was elected Chairman of the Bahrain Association of Banks, was named Islamic Finance Personality of the Year 2017 at the Global Islamic Finance Awards ceremony and was awarded with the Outstanding Contribution to CSR in Islamic Banking by CPi Financial. Mr. Adnan holds a Master of Business Administration degree from University of Hull, UK. He was earlier with Arab Banking Corporation for over 20 years and last served as Director on its Board.

Corporate Governance (Continued)

Mr. Abdul Elah Sabbahi
Board Member

Vice President, Dallah Albaraka Group; Chairman of Al Baraka Bank Tunisia. Chairman of Arab Leasing International Finance, Saudi Arabia and La Société de Promotion du Lac de Tunis. Mr. Sabbahi is also a Member of the Boards of Dallah Albaraka Holding Co. E.C., Bahrain; Al Amin Investment Co., Jordan and a number of other international companies. Mr. Sabbahi has over 38 years' experience in international banking and business, the last 27 of which were with the Dallah Albaraka Group in Saudi Arabia. Mr. Sabbahi, a Saudi national, holds a Bachelor of Science Degree in Accounting from King Abdulaziz University, Saudi Arabia.

Mr. Ebrahim Fayez Al Shamsi
Board Member

Board Member, Al Baraka Turk Participation Bank and Al Baraka Bank Syria. Previously Member of the Board of Arab Fund for Economic & Social Development, Kuwait; Chief Executive Officer of Emirates Islamic Bank, Dubai; and Deputy General Manager, Abu Dhabi Fund for Development. Mr. Al Shamsi has 45 years' varied experience in the financial services industry and in service of the U.A.E. Government. Mr. Al Shamsi, a U.A.E. national, holds a Bachelor of Commerce degree.

Mr. Jamal Bin Ghalaita
Board Member

Mr. Bin Ghalaita has been Chief Executive Officer (CEO), Emirates Islamic since 2011. He was previously Board Member of Emirates Islamic while serving as Group Deputy CEO and General Manager, Consumer Banking and Wealth Management at Emirates NBD. He has driven unprecedented growth at Emirates Islamic, as acknowledged through awards, including "Best Islamic Bank" in the U.A.E. Mr. Bin Ghalaita also serves as the Chairman of Emirates Islamic Financial Brokerage LLC and is a Board Member of Al Baraka Banking Group and Tanfeeth LLC. A U.A.E. national, he has been a banker for over 27 years, with key roles in corporate, retail, trade finance and human resources at Emirates Islamic and Emirates NBD Group. Achievements include planning the launch of Emirates Islamic and establishing new areas of business at Emirates NBD, including private banking, asset management and Emirates Money. Additionally, he is credited with overseeing the growth of the consumer banking and wealth management business.

Mr. Yousef Ali Fadil Bin Fadil
Board Member

Board Member, Al Baraka Islamic Bank, Bahrain and Ajman Bank. Previously, General Manager of the Emirates Financial Company and before that he served as Executive Manager for Investment, Dubai Islamic Bank and held senior positions at National Bank of Umm Al Qaiwain. Mr. Bin Fadil has also served on the Boards of Directors of financial institutions including Union Insurance Company (U.A.E.); Bahrain Islamic Bank; Bosnia International Bank and Dubai Islamic Insurance Company. He has more than 32 years' experience in banking. Mr. Bin Fadil, a U.A.E. National, holds a Bachelor's degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, U.S.A.

Dr. Bassem Awadallah
Board Member

Personal Representative of His Majesty King Abdullah II Bin Al Hussein of the Hashemite Kingdom of Jordan, and Special Envoy to the Kingdom of Saudi Arabia. He is the Chief Executive Officer of Tomoh Advisory, a strategy and financial consultancy based in the United Arab Emirates. He is also Vice Chairman of the Arab Bank (Jordan) and member of the Board of Directors of Arab National Bank (Saudi Arabia); Previously, he held the following positions in Jordan: Economic Secretary to the Prime Minister (1992-1996); Economic Advisor to the Prime Minister (1996-1999); Director of the Economic Department at the Royal Hashemite Court (1999-2001); Minister of Planning and International Cooperation (2001-2005); Minister of Finance (2005); Director of the Office of His Majesty King Abdullah II (April 2006-November 2007); and Chief of the Royal Hashemite Court (November 2007-October 2008). Dr. Awadallah also served as the Secretary General of the Islamic Chamber of Commerce and Industry (2010-2013). He was awarded the King Abdullah Bin Abdulaziz Visiting Fellowship at the Oxford Centre for Islamic Studies in 2012. He is also a member of the Advisory Board of the Middle East Centre at the London School of Economics and Political Science, and is Vice Chairman of the Board of Trustees of Al-Quds University, in Palestine. Dr. Awadallah is the recipient of the Al Hussein Medal for Distinguished Service, the Al Kawkab Decoration of the First Order, and the Al Istiqlal Decoration of the First Order of the Hashemite Kingdom of Jordan, as well as other decorations from several countries. Dr. Awadallah has 32 years of diverse experience. He holds a PhD in Economics and a Master of Science in Economics from the London School of Economics and Political Science. He also holds a Bachelor of Science in Foreign Service, International Economics, International Finance and Commerce, from Georgetown University, Washington, D.C.

Mr. Mohyedin Saleh Kamel
Board Member

Deputy Chief Executive Officer of Direct Investments, Dallah Albaraka Holding Company. Previously, Chairman of the Boards of Directors of Dallah Media Production Company and of Al Rabie Saudi Foods Co. Ltd.; Member of the Boards of Directors of Dallah Real Estate Investment Company, Egypt; Almaza Real Estate Development Company, Egypt; Jabal Omar Development Company; Al Khozami Company; Saudi Research and Marketing Group; Dallah Health Co. Okaz Organization for Press and Publication; VFS Tasheel International company and Member of the Management Committee of Dallah Albaraka Holding Company, E.C; Mr. Mohyedin Kamel is a past member of the Board of Directors of Jeddah Chamber of Commerce and Industry and is active in public and community work in Saudi Arabia. A Saudi national with 16 years of varied experience, he studied Economics at the University of San Francisco, USA.

Mr. Saud Saleh Al Saleh

Board Member

Mr. Saud Saleh Al Saleh is the Chairman of MAAD International Company, Chairman of Gulf Complexes for Housing Company, and Head of the Board of Trustees of Riyadh Economic Forum. Previously, he was Chairman of SAIB-BNP Paribas Asset Management Company; Vice Chairman of American Express (Saudi Arabia) Limited. He was also a Board Member of the following: the Saudi Arabian General Investment Authority, General Organization for Social Insurance, the Higher Education Fund, the Saline Water Conversion Corporation, Saudi Orix Leasing Company, Boeing Industrial Technology Group L.P., AMLAK International for Real Estate Development and Mortgage Finance and The Mediterranean & Gulf Cooperative Insurance & Reinsurance Co. Mr. Al Saleh has more than 33 years' experience in banking, including 26 years with The Arab National Bank followed by management positions at the Saudi Investment Bank, where he eventually became General Manager. Then he was appointed as a Minister as General Secretary of the Supreme Economic Council of the Kingdom of Saudi Arabia. A Saudi national, he holds a B.Sc. degree in Business Administration from Portland State University, Oregon, U.S.A. and an M.A. in Economics from The University of Rhode Island, U.S.A.

Dr. Khaled Abdulla Ateeq

Board Member

Chief Executive Officer (CEO) and a Board Member of Family Bank in Bahrain. Dr. Ateeq served as the Executive Director of Banking Supervision at the Central Bank of Bahrain (CBB), where he was responsible for the licensing, inspection and supervision of financial institutions, ensuring that all banks and financial institutions, either operating in Bahrain or incorporated in Bahrain, complied with laws and regulations issued by the CBB. In addition, Dr. Ateeq is a Director of Al Baraka Islamic Bank (Bahrain). He has held senior posts with a number of firms, including Deputy CEO at Venture Capital Bank. He has over 37 years of experience in banking, finance, auditing, and accounting. Before joining the CBB, Dr. Ateeq was an Assistant Professor at the University of Bahrain. Dr. Ateeq holds a PhD in Philosophy of Accounting from Hull University, U.K.

EXECUTIVE MANAGEMENT

The Board of Directors has delegated to the Group's Executive Management team the primary responsibility for implementing the strategy of the Group, identifying and evaluating significant risks to the business of the Group and for the design and operation of appropriate internal controls. Its other responsibilities include: ensuring that resolutions of the Board of Directors are carried out; ensuring that the Group operates at all times in accordance with the principles of Shari'a and that the decisions and recommendations of the Unified Shari'a Supervisory Board are carried out; providing the Board of Directors with analysis, assessments and recommendations regarding the Group's activities and supplying the CBB with all information required under the CBB Law and relevant regulations. Executive Management disseminates to Group units strategic and other central decisions taken at the parent level, thus ensuring the implementation of Groupwide policies and common operational processes and procedures.

As at the end of 2017, the Executive Management Team consisted of the President & Chief Executive and the Heads of: Strategic Planning; Operations and Administration; Finance; Credit and Risk Management; Legal Affairs; Treasury, Investments and Financial Institutions Commercial Banking; and Sustainability and Social Responsibility. All members of the Executive Management Team have been provided with a written appointment agreement specifying the rights and obligations attaching to the office of each member.

Executive Management also exercises control via a number of committees with specific responsibilities, among which are:

Executive Management Committee

The Executive Management Committee's role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures. The Committee is chaired by the President & Chief Executive with the remaining membership comprising the Heads of: Strategic Planning; Operations and Administration; Finance; Credit and Risk Management; Treasury, Investments and Financial Institutions; Commercial Banking; IT; Sustainability and Social Responsibility; and Legal Affairs with Head of Internal Audit as observer.

Asset and Liability Committee

The Asset and Liability Committee's mandate is to monitor the liquidity and capital adequacy of the Group and review the Group's long-term equity investments and its penetration into the different markets. The Committee reviews liquidity and cash flow of ABG and the Group units and sets balance sheet growth targets, besides monitoring the distribution of profits to investors. The Committee is chaired by the President & Chief Executive and its remaining members are the Heads of: Strategic Planning; Operations and Administration; Finance; Credit and Risk Management; and Treasury, Investments and Financial Institutions, together with a senior member from the Bahrain-based subsidiary, Al Baraka Islamic Bank (Al Baraka Bahrain).

Head Office Credit Committee

The Head Office Credit Committee is the authority that approves credits and considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels. The Head Office Credit Committee is chaired by the President & Chief Executive, with the remaining membership being drawn from among Executive Management.

Management Risk Committee

The Management Risk Committee's role is to assist the Board Risk Committee in managing and controlling risks, and to introduce and support such measures which enhance the efficiency of risk management policies, procedures, practices and controls within the Group. It is chaired by the President & Chief Executive, with remaining membership comprising the Heads of: Operations and Administration; Finance and Credit and Risk Management; together with the Manager of Credit Review and Analysis; and the Manager - Credit Portfolio Analysis.

Corporate Governance (Continued)

Head Office IT Steering Committee

The Head Office IT Steering Committee's role is to draw up the Group's short and long-term IT strategy, and to oversee and monitor its implementation throughout the Group with a view to effecting standardisation in information and operation management. The Committee is chaired by the Head of Operations and Administration. The other members are the Heads of: Finance, Strategic Planning, and Credit and Risk Management; together with senior support nominees drawn from the Group.

Human Resources & Compensation Committee

The role of the Human Resources & Compensation Committee is to review the Human Resources policies, management and planning at the Group's Head Office. The Committee is chaired by the Head of Operations and Administration and the other members are the Heads of Strategic Planning and Finance.

Head Office Insiders Committee

The Head Office Insiders Committee was set up in accordance with the guidelines issued by the CBB and the Bahrain Bourse (BB), for the purpose of ensuring the maintenance of a fair, orderly and transparent securities market, and enhancing and developing the practices relating to the risk management systems and internal controls within listed companies and similar institutions. The Committee is responsible for monitoring and supervising issues relating to insiders in order to regulate their dealings in the Group's securities, and to ensure that Group insiders are acquainted with and aware of the legal and administrative requirements regarding their holdings and dealings in the Group's securities. Furthermore, it is responsible for preventing the abuse of inside information by such insiders. The Committee is chaired by the President & Chief Executive and the other members are the Heads of: Internal Audit; Operations and Administration; Legal Affairs; Treasury, Investments and Financial Institutions and Investors' Relations.

Other Committees

The Executive Management also forms ad hoc committees, as and when required, to address specific initiatives in which the Group may be engaged from time to time.

EXECUTIVE MANAGEMENTS' PROFILES

Mr. Adnan Ahmed Yousif

President & Chief Executive

Mr. Yousif has led Al Baraka Banking Group (ABG) since inception. He is the Chairman of Al Baraka Turk Participation Bank, Banque Al Baraka D'Algerie, Al Baraka Bank Ltd. South Africa, Al Baraka Bank Lebanon, Jordan Islamic Bank, Al Baraka Bank Egypt, Al Baraka Bank Syria, Al Baraka Bank Sudan, Al Baraka Bank Pakistan Ltd., Vice Chairman of Al Baraka Islamic Bank, Bahrain and a Board member of both Al Baraka Bank Tunisia and Itqan Capital in Saudi Arabia. Mr. Yousif was Chairman of the Union of Arab Banks, Lebanon for two terms (2007-2013). He is the recipient of the Medal of Efficiency, a unique honor conferred by His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain during the year 2011. He holds the title of the CSR International Ambassador (Kingdom of Bahrain) from the CSR Regional Network, and was twice named Islamic Banker of the Year (2004 and 2009). In addition, he was awarded the 2012 "LARIBA Award for Excellence in Achievement". The Al Jinan University of Lebanon has granted him an Honorary Doctorate of Philosophy in Business Administration and he has been awarded the Accolade of the Sudanese Presidency for Excellency in Social Responsibility. In 2016, Mr. Yousif was decorated with the Title of "High Commissioner to preach the United Nations Sustainable Development Goals 2030". He also won the Gold Award for Sustainable Development at Oman International Conference on Social Responsibility 2016. In 2017, Mr. Yousif was elected Chairman of the Bahrain Association of Banks, was named Islamic Finance Personality of the Year 2017 at the Global Islamic Finance Awards ceremony and was awarded with the Outstanding Contribution to CSR in Islamic Banking by CPi Financial. Mr. Adnan holds a Master of Business Administration degree from University of Hull, UK. He was earlier with Arab Banking Corporation for over 20 years and last served as Director on its Board.

Mr. Majeed H. Alawi

Executive Vice President - Head of Internal Audit

Mr. Alawi has over 37 years of international banking experience, mainly in audit. He reports directly to the Audit and Governance Committee of the Board of ABG, for which he also acts as Secretary. He participates as an observer member in Audit Committee meetings of all ABG's subsidiaries. The audit function reviews the IT controls environment of IT systems, and compliance with local and international regulations relating to anti-money laundering and financial crime. Previously, he was an audit team leader at Arab Banking Corporation (B.S.C.)'s Internal Audit Department, prior to which he was Head of Operations at Banque National de Paris in Bahrain. Mr. Alawi is a Fellow of the Chartered Association of Certified Accountants, UK (1980).

Mr. K. Krishnamoorthy

Executive Vice President - Head of Strategic Planning

Mr. Krishnamoorthy has over 41 years' experience in financial and management reporting, corporate and structured finance, credit, strategic planning, project management, equity research, fund management and administration. Before joining ABG in 2004, he headed the worldwide banking solutions business of a major Canadian IT solutions company in Toronto, Canada, after two years as a partner in a regional Gulf investment bank. Prior to that, he spent 13 years at Arab Banking Corporation (B.S.C.) in investment banking and treasury. His early career was spent as finance professional in India and Bahrain. Mr. Krishnamoorthy is an Associate of the Institute of Chartered Accountants of India and holds a B.Com (Hons) degree from Osmania University, India.

Mr. Abdulrahman Shehab

Executive Vice President - Head of Operations and Administration

Mr. Shehab has over 41 years' experience with international financial institutions, both Islamic and conventional. He is a Member of the Boards of Banque Al Baraka D'Algerie and Al Baraka Bank (Pakistan) Ltd. Before joining ABG in May 2006, he was Assistant Chief Executive Officer – Head of Operations & Administration at Bahrain Islamic Bank from 2002-2006, which he joined from Faysal Islamic Bank of Bahrain (now Ithmaar Bank) where he worked from 1985-2002. Previously, he worked at Bahrain Middle East Bank and the Bahrain branches of American Express Bank, Bank of America and Chase Manhattan Bank. He started his career with Habib Bank Ltd. in 1973. Mr. Shehab holds a Master degree in Business Administration from Hull University, UK.

Mr. Hamad Abdulla Al Oqab

Executive Vice President - Head of Finance

Mr. Al Oqab has over 24 years' experience in finance and auditing. He is Chairman of the Accounting Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is also a Member of the Boards of Al Baraka Turk Participation Bank, Jordan Islamic Bank and Banque Al Baraka D'Algerie, Algeria. In addition, he serves as a member of the audit committees of Jordan Islamic Bank and Banque Al Baraka D'Algerie, a member of the Board of Sustainability & Social Responsibility Committee and Credit Committee of Jordan Islamic Bank, and a Member of the Board Executive Committee and Observing Member of the Board Audit Committee of Al Baraka Turk Participation Bank. Before joining ABG in February 2005, he worked at Shamil Bank as Senior Manager, Internal Audit. Prior to this, he was a member of the audit team at Arthur Andersen.

Mr. Al Oqab is a Certified Public Accountant and a Chartered Global Management Accountant.

Mr. Jozsef Peter Szalay

Senior Vice President - Head of Credit and Risk Management

Mr. Szalay has over 41 years' international banking experience, encompassing credit and risk management, corporate banking and trade finance. Mr. Szalay has been a member of ABG's executive management team since September 2006. Previously, he worked with Gulf International Bank B.S.C., which he joined in 1979 as Regional Marketing and Credit Officer for Central Europe, subsequently working in credit and business development before becoming Chief Credit Officer and Member of the Group Risk Committee. Prior to that, he worked at Bank of Montreal, Canada, latterly being appointed its Middle East Representative. Mr. Szalay holds an M.A. (Econ.) from University of Budapest and a Banking Certificate from the Institute of Canadian Bankers. He is a graduate of the Advanced Management Program at INSEAD France.

Mr. Salah Othman Abuzaid

Senior Vice President - Head of Legal Affairs

Mr. Abuzaid has over 33 years' professional experience as a judge, a practicing advocate and legal consultant for local, regional and international law firms and financial institutions. He also serves as Secretary to the Board of Directors of ABG and some of its Board Committees. He joined ABG as First Vice President - Head of Legal Affairs & Compliance, and was promoted to Senior Vice President. Before joining ABG, he worked at Al Baraka Islamic Bank (Bahrain) as Manager, Legal Affairs, prior to which he was based in the Sultanate of Oman from 2001-2004 working for an international law firm. In Oman, he was admitted to practice before all Omani courts. Before that, he spent 20 years in legal practice in Sudan. Mr. Abuzaid has an LLB degree from the Faculty of Law, University of Khartoum, Sudan.

Mr. Mohammed A. El Qaq

Senior Vice President – Head of Commercial Banking

Mr. El Qaq has over 26 years of experience in commercial banking. Before joining ABG in August 2014, Mr. El Qaq was General Manager, International Banking & Syndications at Commercial Bank of Kuwait, prior to which he was a First Vice President at Arab Banking Corporation (B.S.C.), Bahrain, and Deputy Chief Executive & Head of Corporate Banking Group at Arab Banking Corporation (Jordan). He also served as a Member of the Board of Directors of ABC Islamic Bank from 2009-2012. Having started his career with the Housing Bank for Trade and Finance, Jordan, in 1990, he then worked with Arab Bank in Jordan and Qatar National Bank in Qatar. Mr. El Qaq holds a Master of Business Administration degree from Howard University, U.S.A.

Mr. Khalid Al Qattan

Senior Vice President - Head of Treasury, Investments and Financial Institutions

Mr. Al Qattan has over 34 years of banking experience in treasury and operations. Before joining ABG in June 2007 as Vice President – and appointed to his present post in 2016 - he was Treasury Manager at Eskan Bank, Bahrain where he was responsible for liquidity management and served on several management committees. Prior to that, he worked at Shamil Bank, Bahrain, as Manager of Treasury operations, and at United Gulf Bank, Bahrain. Mr. Al Qattan holds a Master of Business Administration degree from the University of Hull, UK.

Corporate Governance (Continued)

Mr. Qutub Yousafali
Head of Group Compliance

Mr. Qutub Yousafali is a banking professional with more than 38 years' experience who joined ABG in January 2012. Previously, Mr. Yousafali worked with Arab Banking Corporation (B.S.C.) in Bahrain for nearly 18 years, latterly as Group Head of Compliance. He was responsible for overseeing and coordinating compliance functions and activities, including regulatory compliance, corporate governance, anti-money laundering and international sanctions across the network of offices worldwide. Prior to this appointment in 2009, Mr. Yousafali had held senior positions in the Arab World Division & Universal Banking in Arab Banking Corporation (B.S.C.). Previously, he worked for an affiliate bank in senior positions, including Head of Internal Audit and Finance. Mr. Yousafali started his professional career with Peat Marwick Mitchell & Co. (now KPMG), London.

Mr. Yousafali is a Fellow of The Institute of Chartered Accountants in England & Wales, UK.

Dr. Ali Adnan Ibrahim
First Vice President - Head of Sustainability and Social Responsibility

Dr. Ibrahim has over 21 years of experience. He is the Head of the Group Sustainability and Social Responsibility Department, and specialises in market-based strategies for economic development, corporate sustainability, impact investing, Islamic micro-and-SME finance, mergers and acquisitions, and Shari'a-structuring. He develops strategies and processes to ensure that Al Baraka's businesses contribute to its communities. Dr. Ibrahim is also Chairman of the Sustainable Development Committee of the Bahrain Association of Banks, and is also a World Economic Forum Young Global Leader. Previously, Dr. Ibrahim was a counsel at Baker & McKenzie. As a Fulbright Scholar, Dr. Ibrahim received his doctorate in financial regulation from the Georgetown University (with distinction). He has attended leadership programs such as "Global Leadership and Public Policy in 21st Century" at Harvard University and "Transformational Leadership" at Oxford University. He has twice served as Co-Chair of the Islamic Finance Committee of the American Bar Association. Dr. Ibrahim has been published internationally on market-based strategies for economic development, financial inclusion, Islamic finance and its regulation, Islamic microfinance, comparative corporate governance and capital markets in developing countries.

COMPLIANCE, POLICIES AND PROCEDURES

Group Compliance

ABG Group is committed to complying with ever increasing international regulatory requirements. The Group Compliance function supports the Group units, updating policies when necessary. There is a continual drive to enhance the compliance culture through investment in advanced systems and effective staff training. The Group has never hesitated to decline business that might risk breaching the letter or the spirit of applicable laws, rules and regulatory standards.

The Head of Group Compliance, who is the Group Compliance Officer (GCO) has formulated a Group compliance strategy and compliance management framework for implementation throughout the ABG Group. They reflect the following core principles and practices which are firmly embedded in ABG and all its subsidiaries:

- comply with both the letter and the spirit of all applicable laws, rules and regulatory standards;
- conduct business strictly in accordance with all regulatory and ethical standards;
- encourage a strong compliance culture, with every individual held personally responsible for compliance; and
- maintain a robust corporate governance environment at all times.

ABG and its subsidiaries continue to enhance the compliance-related policies, procedures and framework. Staff skills have been upgraded by providing current and targeted training. Systems and automated tools are being introduced, as required, to improve compliance standards throughout the Group.

An Independent Function

Group Compliance in ABG is an independent function responsible for:

- proactively identifying and evaluating compliance risks;
- developing and implementing compliance policies, programmes and plans;
- monitoring, managing, mitigating and reporting compliance risks;
- monitoring, investigating and reporting compliance breaches, incidents and risks; and
- advising management and staff on compliance and regulatory matters.

The GCO reports directly to the President & Chief Executive. He provides independent oversight on behalf of the Board of Directors, and reports to the Board of Directors whenever deemed necessary. In addition, the GCO has the right and the authority to contact the Central Bank of Bahrain (CBB), as and when he considers it necessary. The GCO is supported by dedicated compliance teams in all ABG subsidiaries. At the Group level, the GCO is responsible for coordinating the identification and management of the ABG Group's compliance risks, in collaboration with local Heads of Compliance in each of the subsidiaries.

Throughout its network of offices, ABG has issued written guidelines for staff. They describe the appropriate implementation of laws, regulations, rules and standards through policies and procedures, including the overarching Group Compliance Policy. This policy requires all subsidiaries, officers and staff to comply with all relevant laws, rules, regulations and standards of good market practice.

In the ABG Group, compliance risks fall broadly into the following categories:

- Regulatory Compliance and Corporate Governance;
- Anti-Money Laundering and Countering Financing of Terrorism;
- International sanctions; and
- Foreign Account Tax Compliance Act and Common Reporting Standard (FATCA/CRS).

Regulatory Compliance and Corporate Governance

At the Group level, policies are continuously developed for managing compliance risks in all the above categories. These policies are systematically cascaded down to the subsidiaries, which adapt and implement them in accordance with local regulatory requirements. In addition, the ABG Group has a strict Code of Conduct in place that all employees must adhere to at all times. The Code sets out to deter wrongdoing and to promote ethical conduct. It outlines the responsibilities of all members of the ABG Group, its officers and staff, who are expected to read, understand and uphold these standards and principles at all times.

The ABG Group has a whistleblowing policy in place, which provides a formal channel for staff to report any unethical conduct, gross mismanagement or corporate wrongdoing. Staff members are encouraged to report their concerns through specified communication channels which protect their identities, without fear of reprisal or victimisation. Reportable disclosures may include legal or regulatory wrongdoing, fraud or any other malpractice.

Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT)

Risks relating to financial crime are proactively managed at the Group and subsidiary levels. The ABG Group is committed to complying with AML/CFT laws and regulations, as well as the recommendations of the Basel Committee and Financial Action Task Force. These laws, regulations and recommendations are reflected in the AML/CFT policies of ABG and each of its subsidiaries. The Group has strict Know Your Customer policies, which include detailed requirements for identifying and verifying customers. These policies preclude all operating units from establishing a new business relationship until all relevant parties to the relationship have been identified and verified, and the nature of the business they expect to conduct has been clearly established.

In line with the requirements of the CBB and the Group AML Policy, suitably qualified Money Laundering Reporting Officers (MLROs) are appointed in all subsidiaries. The MLROs are responsible for ensuring compliance with all relevant laws, regulations and policies in respect of AML/CFT. They also have responsibility for reviewing and monitoring customers and transactions, and reporting to their respective host regulators any suspicions concerning them.

At the Group level, ABG has appointed a Group MLRO, who is responsible for formulating and implementing ABG's AML strategies and policies on an ongoing basis. The Group MLRO coordinates the activities of each subsidiary's MLRO, overseeing appropriate AML training for all relevant staff, and reporting to the Board Audit and Governance Committee and the Board of Directors on all critical money laundering issues.

International Sanctions

Owing to a raft of sanctions imposed by local and international regulatory bodies, sanctions compliance is one of the primary challenges faced by banks today, particularly those operating across multiple geographies. Breaches of sanctions expose banks to significant regulatory, reputational and commercial risks, including potential financial losses. As evidenced by the large number of cases reported and the very sizeable fines imposed, sanctions risk has become one of the most serious risks faced by banks worldwide.

Being mindful of such risks, ABG has a Group Sanctions Policy in place, which is implemented throughout its network in order to ensure uniform adherence to all relevant sanctions orders. This policy sets out various restrictions and prohibitions relating to customers and transactions subject to sanctions. These restrictions sometimes extend beyond the strict requirements of applicable laws in order to safeguard the ABG's reputation and standing.

ABG's strategy and policy for managing sanctions risk is determined at the Group level and implemented across all subsidiaries. The Group is increasing staff awareness of sanctions compliance and investing in screening systems to manage and minimise sanctions risk. Being mindful of its responsibilities, ABG is committed to further enhancing its sanctions risk management framework on an ongoing basis.

Foreign Account Tax Compliance Act and Common Reporting Standard (FATCA/CRS)

US legislation known as FATCA, aimed at preventing tax evasion by US citizens and residents by hiding their assets in accounts with non-US banks, became law in 2010. FATCA requires Foreign Financial Institutions (FFIs) such as ABG and its subsidiaries to enter into FFI agreements, under which they agree to identify and provide the US Internal Revenue Service (IRS) with information on accounts held by US persons and US-owned foreign entities, or otherwise face 30% withholding tax on certain payments made to them. FFIs are also required to withhold tax on certain payments made to other FFIs that have not entered into an FFI agreement, and on payments made to account holders who do not respond to requests to confirm their US person status and/or do not agree to the FFI reporting certain account-related information to the IRS.

Intergovernmental Agreements (IGAs) Models 1 and 2 were offered by the IRS to reduce the compliance costs and operational issues arising from the implementation of FATCA. A number of countries, including Bahrain, where ABG subsidiaries operate either have signed or are expected to sign an IGA Model 1 with the US. If the IGAs are signed in accordance with the FATCA regulations, ABG subsidiaries will be required to report the necessary US account-related information to their competent local authorities only, which in turn will provide the information to the IRS.

From the outset, the ABG Group has taken necessary steps to build awareness. It has also made substantial investments in training people and introducing systems in order to implement the new legislation throughout its network of offices. A robust Group FATCA strategy and policy is in place and is being implemented throughout the Group. As a result, all our subsidiaries comply with the applicable FATCA reporting and withholding requirements.

Corporate Governance (Continued)

The OECD published the CRS in 2014, which is supported by the G20 countries to improve tax transparency through automatic exchange of information about the financial assets of tax residents of a country in other jurisdictions participating in the CRS programme. ABG and its subsidiaries are expanding their FATCA policies and frameworks to include CRS. As a result, all members of the ABG Group are taking all steps necessary to become fully compliant with CRS requirements, as and when these are adopted by the countries in which ABG subsidiaries operate.

Group Disclosure Policy

The Group communication strategy aims to keep the market informed of material information in a timely, accurate and balanced manner. The Group's communications with the market ensures compliance with the CBB's directives as detailed in the Public Disclosure Module of its Rulebook, Volume 2, Part A and the CBB Disclosure Standards as specified under the CBB Capital Markets Regulations.

Material information is any information, financial or non-financial, relating to the business and affairs of ABG, the Group or any of ABG's subsidiaries that results in, or would reasonably be expected to result in, a significant change in the market price of the Group's shares or in the decision of a prudent investor to sell, buy or hold the Group's shares or cause to change a prudent investor's decision to transact or refrain from transacting with the Group or its units. Material information consists of, but is not limited to, both material facts and material changes relating to the business and affairs of the Group and ABG's subsidiaries.

In order for the Group to comply fully with the CBB disclosure requirements as specified in the CBB Rulebook, the Group will disclose all the required information in its published quarterly reviewed financial statements, and its annual audited financial statements, and any applicable ad hoc information requirement of the CBB from time to time.

Further, as a listed company on the Bahrain Bourse (BB) and NASDAQ Dubai, ABG is committed to adhering on a timely basis to all periodic information dissemination requirements of the BB and NASDAQ Dubai, as stipulated in their respective regulations and directives.

Additionally, the Group will publicly disclose and broadly disseminate material information immediately upon becoming aware of circumstances or events that underlie such material information, or when a decision to implement a material change is made by the Board of Directors or Executive Management.

As a listed company, ABG adheres to a strict policy, which delegates to certain specific individuals the authority to issue press releases or make announcements to the public, financial or non-financial, about the Group. Only the following persons are authorised to make public information via the media:

- Chairman of the Board of Directors
- Vice-Chairmen of the Board of Directors
- President & Chief Executive

In the event that any of the above mentioned persons is requested to make statements relating to the financial statements, financial indicators or general financial performance of the Group, that person will consult and/or confirm with the Head of Finance with regard to the accuracy, timeliness and reliability of the information prior to making any public announcements.

The Group distributes its Financial Statements and Prudential Returns to the CBB, BB and NASDAQ Dubai on a quarterly and an annual basis. Then the Group makes this information available on its website.

Press releases are posted on the Group's website and published in either Arabic or English. Persons authorised by the Group to make public disclosures will not make any announcement on a one-to-one basis before disseminating the information on the Group's website or in local newspapers as appropriate.

The Group has in place an effective framework for dealing with complaints received from its shareholders and other stakeholders. Different channels have been established to enable communication with investors, including through the offices of the Registrar, an online enquiry centre on the Group's website and dedicated telephone and facsimile lines. All complaints received are transmitted to the concerned department, Executive Management and the Board. In accordance with the CBB's disclosure requirements, the Group maintains at least the previous three years' financial performance information on its website.

Regulations

The Group complies with all the regulatory requirements governing Islamic Banks issued by the CBB, which include, inter alia, regulations governing the Group's capital adequacy, asset quality and risk management, liquidity and fund management and corporate governance.

The CBB, as the home supervisor, sets and monitors ABG's capital requirements on both a consolidated and an unconsolidated basis, while ABG's banking subsidiaries are directly regulated by their local banking supervisors, which set and monitor their capital adequacy requirements.

The CBB requires each Bahrain-based bank or banking group to maintain a minimum capital adequacy ratio of 8% on a solo basis and 12.5% (including capital conservation buffer (CCB) of 2.5%) on a consolidated basis.

By the end of 2014, the CBB had issued the final regulation to give effect to the Basel III framework, which came into effect on 1st January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises common equity as the predominant component of tier 1 capital by introducing a minimum common equity tier 1 (CET1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET1 capital, the regulatory adjustments including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1st January 2019. The current capital position is sufficient to meet the new regulatory capital requirements.

Pursuant to the Group's Compliance Policy, which was approved and adopted by the Board of Directors in November 2009, as mentioned earlier ABG appointed a Compliance Officer, whose role is to assist management to ensure the Group's adherence to the Group Compliance Policy, in particular that all Group activities are conducted in conformity with all applicable laws and regulations and in accordance with best practice.

Financial performance monitoring

Executive Management has in place various measures that help monitor and control the activities of the Group worldwide. A comprehensive financial consolidating procedure exists and is working effectively. All subsidiaries submit their financial data in a format that is compatible with Islamic Accounting Standards issued by AAOIFI and with International Financial Reporting Standards (IFRS). These are consolidated quarterly, and a consolidated set of financial results is produced. Additionally, subsidiaries submit a monthly return to Group headquarters providing details of their financial performance, measured against approved budgets.

Related party transactions

Dealings with persons or entities connected with the Group (including directors and shareholders) are called "related party transactions". The Group treats all such transactions at arm's length and requires that they have the specific approval of the Board. If a director is an interested party, he is required to abstain from voting on the respective matter. The Related Party Transactions pertaining to 2017 are reflected in Note 25 to the Consolidated Financial Statements.

Code Of Business Conduct And Ethics

ABG maintains a board-approved policy on the employment of immediate family members or other relatives of employees. The policy prohibits the employment and internal transfers where applicable, of first and second-degree relatives. However, the policy permits third and fourth degree relatives to be employed in positions other than where there is an actual, potential or perceived conflict of interest, or an opportunity for collusion. The Human Resources and Internal Audit departments are responsible for examining potential applications for employment to check whether there is likely to be an actual or potential conflict of interest as defined by the Group's policies, with particular reference to the code of conduct and conflict of interest policies.

REMUNERATION POLICY AND RELATED DISCLOSURES

The Group's total compensation approach, which includes the variable remuneration policy, sets out the Group's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

Through the remuneration framework summarised below, the Group aims to comply with the CBB's regulations concerning Sound Remuneration Practices.

Remuneration Strategy

It is the Group's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Group's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the Group's shareholders. These elements support the achievement of the Group's objectives, through balancing rewards for both short-term results and long-term sustainable performance. The Group's strategy is designed to share its success, and to align employees' incentives with its risk framework and risk outcomes.

The quality and long-term commitment of all of the Group's employees is fundamental to its success. The Group therefore aims to attract, retain and motivate the very best people, who are committed to maintaining a career with the Group, and who will perform their role in the long-term interests of its shareholders. The Group's reward package is comprised of the following key elements:

1. Fixed pay;
2. Benefits;
3. Annual performance bonus; and
4. The Long-Term Performance Incentive Plan.

A robust and effective governance framework ensures that the Group operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Affairs & Remuneration Committee (BARC) and approved by the Board of Directors thereafter.

The Group's remuneration policy, in particular, considers the role of each employee and sets guidance on whether an employee is a "Material Risk Taker" and/or an "Approved Person" in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Group, while an employee is considered a Material Risk Taker if either he/she is the head of a significant business line, or any individuals within their control have a material impact on the Group's risk profile.

In order to ensure alignment between what the Group pays its people and its business strategy, the Group assesses individual performance against annual and long-term financial and non-financial objectives, summarised in its performance management system. This assessment also takes into account adherence to the Group's values, risks and compliance measures and, above all, acting with integrity. Altogether, performance is, therefore, judged not only on what is achieved over the short and the long-term but also importantly on how it is achieved, as the BARC believes the latter contributes to the long-term sustainability of the business.

BARC Role and Focus

The BARC has oversight of all reward policies for the Group's employees. The BARC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for setting the principles and governance framework for all compensation decisions. The BARC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Group.

The responsibilities of the BARC with regard to the Group's variable remuneration policy, as stated in its mandate, include, but are not limited to:

- Approving, monitoring and reviewing the remuneration system to ensure the system operates as intended;
- Approving the remuneration policy and amounts for each Approved Person and Material Risk Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- Ensuring remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees who earn the same short-run profit but take different amounts of risk on behalf of the Group;
- Ensuring that, for Material Risk Takers variable remuneration forms a substantial part of their total remuneration;
- Reviewing the stress testing and back testing results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses and other employee benefits;
- Carefully evaluating practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain; the BARC will question pay-outs for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment;
- Ensuring that, for approved persons in risk management, internal audit, operations, finance and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration;
- Recommending Board members' remuneration based on their attendance and performance, and in compliance with Article 188 of the Bahrain Commercial Companies Law; and
- Ensuring appropriate compliance mechanisms are in place to make sure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.
- The aggregate remuneration paid to BARC members during the year in the form of sitting fees amounted to US$48 thousand (2016: US$49 thousand); other details concerning BARC membership are disclosed elsewhere in this report.

External Consultants

The Bank used external consultants for some small updates to its remuneration process during the year and for generation of suitable reports for the BARC.

Scope of Application of the Remuneration Policy

The remuneration policy has been adopted on a Group-wide basis.

Board Remuneration

The Board of Directors' remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable Remuneration for Staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of the staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Group's strategic objectives.

The Group has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of both meeting satisfactory financial performance and the achievement of other non-financial factors that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the BARC aims to balance the distribution of the Group's profits between shareholders and employees.

Key performance metrics at the Group level include a combination of short-term and long-term measures, and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Group starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk the use of risk-adjusted measures (including forward-looking considerations).

The BARC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The BARC demonstrates that its decisions are consistent with an assessment of the Group's financial condition and future prospects.

The Group uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Group's objective to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base may be adjusted at the discretion of the BARC.

Funding for distribution of a bonus pool is dependent on threshold financial targets being achieved by the Group. The performance measures ensure that total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Group occurs. Furthermore, the target bonus pool, as determined above, is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of Control Functions

The remuneration level of staff in the control and support functions is maintained at a level, which enables the Group to attract and thus employ qualified and experienced personnel in these functions. The Group ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the financial performance of the business areas they monitor.

The Group's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment, apart from value-adding tasks, which are specific to each unit.

Variable Compensation for Business Units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Group. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the Group are treated differently by the remuneration system.

Risk Assessment Framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Group. In its endeavour to do so, the Group considers both quantitative measures and qualitative measures in the risk assessment process. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

The BARC considers whether the variable remuneration policy is in line with the Group's risk profile and ensures that, through the Group's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Group undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Group ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Group's current capital position and its ICAAP.

The bonus pool takes into account the performance of the Group, which is considered within the context of the Group's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Group-wide notable events.

The size of the variable remuneration pool and its allocation within the Group takes into account the full range of current and potential risks, including:

a) The cost and quantity of capital required to support the risks taken;
b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The BARC keeps itself abreast of the Group's performance against the risk management framework. The BARC will use this information when considering remuneration to ensure that returns, risks and remuneration are aligned.

Risk Adjustments

The Group has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against prior risk assumptions. In any year where the Group suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Group's total variable remuneration;
- At an individual level, poor performance by the Group will mean individual KPIs are not met and hence employee performance ratings will be lower;
- Reduction in the value of deferred shares or awards;
- Possible changes in vesting periods and additional deferral applied to unvested rewards;
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The BARC, with the Board's approval, can rationalise and make the following discretionary decisions:

- Increase/reduce the ex-post adjustment;
- Consider additional deferrals or increase in the quantum of non-cash awards;
- Recovery through malus and clawback arrangements.

Malus and Clawback Framework

The Group's malus and clawback provisions allow the Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Group to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Group to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Group during the relevant performance year.

Any decision to take back an individual's award can only be made by the Board of Directors.

The Group's malus and clawback provisions allow the Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include the following:

- Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Group/employee's business unit to suffer material loss in its financial performance, material misstatement of the Group's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the relevant performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Group during the relevant performance year.
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of Variable Remuneration

Variable remuneration has the following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Up front share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Group's share price as per the rules of the Group's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Deferred Compensation

All employees earning over BHD100 thousand or equivalent, in total compensation shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	Deferral	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Upfront shares	-	Immediate	6 months	Yes	Yes
Deferred cash	0%	Over 3 years	-	Yes	Yes
Deferred share awards	60%	After 3 years	6 months	Yes	Yes

The BARC, based on its assessment of role profile and risk taken by an employee, may increase the coverage of employees that are subject to deferral arrangements.

Details of remuneration paid

a) Board of Directors

	US$ '000	
	2017	**2016**
Sitting Fees	246	475
Remuneration	1,500*	1,500
Other	100	221

The category 'Other' includes the reimbursement of air fares and payment of per diem allowances for attending Board of Directors and Board Committees' meetings.

*To be approved by AGM in March 2018.

b) Employee Remuneration

Total fixed remuneration for Approved Persons and Material Risk Takers affected by the policy amounted to US$4,644 thousand (2016: US$3,696 thousand) and the number of persons affected: 12 (2016:9).

The total variable remuneration for 2017 was US$2,569 thousand (2016: US$2,886 thousand).

c) Deferred Awards

Selected members of management in ABG's subsidiaries are entitled to deferred variable remuneration under a Management Incentive Programme based on pre-defined objectives and thresholds of performance. Annual amounts of such variable remuneration, in accordance with the said programme, are used to purchase shares in ABG, which purchases are deferred over a three year period, with annual vesting. Total amounts of deferred variable remuneration amounted to US$3,853 thousand (2016: US$4,329 thousand).

d) Severance Pay – Nil (2017-2016**)**

(1) Employee remuneration

Details of Remuneration Paid For the Financial Year Ended 2017

Categories of Employees	No.	Fixed Remuneration (US$ '000)			Variable Remuneration (US$ '000)						Total (US$ '000)
		Salaries and Wages	Other Benefits & Allowances	Total	Performance Bonuses (in Cash)	Performance Bonuses (in Shares)	Other Performance Linked Incentives	Deferred Compensation paid during the period	Others	Total	
Employees engaged in risk taking activities (business areas)	2	1,829	768	2,597	2,083	3,124	-	-	-	5,207	7,804
Employees, other than approved persons, engaged in functions under 3.	10	2,815	868	3,683	486	729	-	-	-	1,215	4,898
Total	**12**	**4,644**	**1,636**	**6,280**	**2,569**	**3,853**	**-**	**-**	**-**	**6,422**	**12,702**

Details of Remuneration Paid For the Financial Year Ended 2016

Categories of Employees	No.	Fixed Remuneration (US$ '000)			Variable Remuneration (US$ '000)						Total (US$ '000)
		Salaries and Wages	Other Benefits & Allowances	Total	Performance Bonuses (in Cash)	Performance Bonuses (in Shares)	Other Performance Linked Incentives	Deferred Compensation paid during the period	Others	Total	
Employees engaged in risk taking activities (business areas)	2	1,748	433	2,181	2,435	3,652	-	-	-	6,087	8,268
Employees, other than approved persons, engaged in functions under 3.	7	1,948	630	2,578	452	677	-	-	-	1,129	3,707
Total	**9**	**3,696**	**1,063**	**4,759**	**2,886**	**4,329**	**-**	**-**	**-**	**7,216**	**11,975**

(2) Deferred awards

	2017				
		Shares			
	Cash (US$ '000)	**Number ('000)**	**(US$ '000)**	**Others (US$ '000)**	**Total (US$ '000)**
Opening balance	-	15,556	7,871	-	7,871
Awarded during the period	-	10,275	3,853	-	3,853
Paid / released during the period	-	-	-	-	-
Service in value unvested opening awards	-	-	-	-	-
Closing balance	**-**	**25,830**	**11,724**	**-**	**11,724**

	2016				
		Shares			
	Cash (US$ '000)	**Number ('000)**	**(US$ '000)**	**Others (US$ '000)**	**Total (US$ '000)**
Opening balance	-	6,721	3,542	-	3,542
Awarded during the period	-	8,835	4,329	-	4,329
Paid / released during the period	-	-	-	-	-
Service in value unvested opening awards	-	-	-	-	-
Closing balance	**-**	**15,556**	**7,871**	**-**	**7,871**

RISK MANAGEMENT

The Group is committed to complying with internationally established principles and policies in relation to risk management. In particular the Group fully subscribes to the guiding principles of risk management for Islamic financial services institutions set down by the Islamic Financial Services Board and the need for a comprehensive risk management and reporting process.

ABG's Head of Credit and Risk Management is responsible for formulating and monitoring the Group's policies relating to all aspects of risk, developing the framework for risk measurement and coordinating with the Group subsidiaries all necessary steps for adhering to the requirements of Basel III and, where and when still applicable, Basel II, under the Central Bank of Bahrain (CBB) rules. He is also responsible for introducing and implementing risk measurement software, monitoring the Group's compliance with risk measurement standards and providing the Risk Committee of the Board of Directors and Group management with reports on the various risks.

Risk management is an integral part of the Group's decision making process. The Board of Directors, acting on recommendations made by the Board Risk Committee defines and sets the Group's overall risk appetite, risk diversification and asset allocation strategies. This includes the policies regarding related party transactions, their reporting and approval. The Management Risk Committee and other executive committees guide and assist with management of the Group's balance sheet risks. The Group manages exposure by setting limits approved by the Board of Directors or under delegated authorities by committees of the management. Risk policies and processes to mitigate the risks are regularly reviewed.

The Group's risk management has the following objectives:

a. unified Group-wide risk management with the ultimate aim of enabling the Group to calculate risk-adjusted return on capital;

b. inculcation of a professional risk management culture throughout the Group with a prudent, disciplined approach to risk-taking based on comprehensive Group-wide policies, processes and limits;

c. professionally qualified staff and ongoing credit training;

d. investing in technology and systems enabling best practice risk management;

e. throughout the Group, strict segregation of duties and reporting lines between personnel transacting business and personnel processing that business;

f. strict compliance with all Shari'a and legal requirements and regulatory directives; and

g. maintaining clear, well documented policies via a "Group Credit and Risk Policies and Guidelines Manual" and credit and risk management manuals in each of the subsidiaries, which incorporate the policies and guidelines of the Group in addition to the local requirements.

Each of ABG's subsidiaries is governed by its respective Board of Directors. Group subsidiaries follow documented credit policies and procedures which, as stated above, reflect Group-wide policies and so ensure that sound risk management is in place in all ABG's subsidiaries.

A consolidating system for the calculation of capital adequacy, taking into account credit, market and operational risk, all in accordance with Basel III requirements, is in operation. This allows Head Office to retrieve data automatically. Furthermore, operational risk systems in each Subsidiary ensure a consistent approach to operational risk.

The Group has continued to maintain momentum towards achieving optimal risk management policies, practices and procedures, pursuing five key objectives:

- Continuous improvement in credit and risk management practices and intensified efforts on collections, recoveries and settlement of outstanding debts to bring about resilient asset quality in face of increased challenges in some of the Group's markets.
- All subsidiaries ensure that their NPA provisioning policies are in line with both Group policies and local regulatory requirements.
- Subsidiaries continue to strive to ensure a high degree of cooperation between their business arms and risk management departments. Hiring and training of credit and risk management staff is an ongoing priority in each unit.
- Each subsidiary has an approved Credit and Risk Management Manual, covering all relevant risks to which it is subject, which accords with Group policies and procedures.
- All subsidiaries submit timely quarterly risk management reports to Head Office, which fully meet regulatory requirements. The contents of these reports are continuously expanded in order to provide Head Office with increasingly comprehensive data.

A standard risk management framework has been established across the Group, reflected in operational manuals that closely adhere to Group policy regarding all the major categories of risk that the Group faces when carrying out its business. These are: Credit, Liquidity, Market (including Equity Price, Profit Rate and Foreign Exchange risk), Operational (including Fraud Risk and Information Security Risk) and Shari'a Compliance risks. Each of these major risks is discussed below.

Credit Risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. It applies to the Group in its management of the financing exposures arising out of receivables and leases (for example, Murabaha and Ijarah) and working capital and other financing transactions (Salam, Istisna'a, Musharaka or Mudaraba).

Each Group subsidiary has in place a framework for credit risk management that includes identification, measurement, monitoring, reporting and control of credit risks. Each subsidiary controls credit risk through the process of initial approval and granting of credit, subsequent monitoring of counterparty creditworthiness and the active management of credit exposures. Authority to approve credits is delegated by the subsidiary's Board of Directors to committees entrusted with the task of credit assessment and evaluation, under specific credit policies and operational procedures in place in that subsidiary.

Corporate Governance (Continued)

Mitigation of credit risk is chiefly achieved through obtaining various forms of collateral if this is deemed necessary.

Each subsidiary maintains an internal audit department responsible for carrying out reviews of credit exposures to counterparties, and assessing their quality and adherence to laid down approval procedures. Each subsidiary also maintains policies and procedures covering "single obligor large exposures" and case-by-case approvals of "related party transactions".

During the year ABG and its Subsidiaries made all necessary preparations including acquiring credit rating and other systems and revising credit policies and procedures for introduction of the new FAS 30 Accounting Standard of AAOIFI on January 1, 2018.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal or stressed circumstances.

ABG and its subsidiaries each has in place a liquidity management framework, taking into account its liquidity exposures in respect of its current and savings accounts, deposits from banks and other financial institutions, and its restricted and unrestricted investment accounts. This ensures that it maintains liquid assets at prudential levels so that cash can quickly be made available to honour all its obligations. Liquidity management also recognises the impact of potential cash outflows arising from irrevocable commitments to fund new assets, as well as the potential risk impact of withdrawals by large single depositors, ensuring that ABG does not rely excessively on one customer or small group of customers. In addition to its own internal liquidity management policies, each subsidiary is further required to maintain cash deposits with its respective central bank equal to a percentage of its deposits as directed by that central bank – in most cases 20%. ABG additionally holds liquid funds which are earmarked and available for its subsidiaries in the unlikely event that they should require assistance. Liquidity management reporting conforms to all local regulations.

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

Each Group subsidiary has in place appropriate strategies, risk management and reporting processes in respect of the risk characteristics of equity investments, including Mudaraba, Musharaka and other investments. Based on Group policies, each subsidiary ensures that its valuation methodologies are appropriate and consistent, and assesses the potential impact of its methods on profit calculations and allocations mutually agreed between that subsidiary and its partners. Further, each subsidiary has defined and established appropriate exit strategies and risk management and reporting processes in respect of its equity investment activities.

Profit Rate Risk or Rate of Return Risk

Profit rate risk or rate of return risk is the risk that the Group will incur a financial loss as a result of a mismatch in the profit rate on the Group's assets and unrestricted investment accounts. The Group is not liable to pay any predetermined returns to investment account holders, although it does apply appropriate income smoothing techniques to ensure that profits are fairly distributed to the investment account holders.

Foreign Exchange Risk

Foreign exchange rate risk arises from the movement of currency exchange rates over a period of time, leading to an adverse impact on the Group's earnings or shareholders' equity. The Group is exposed to foreign exchange rate risk in that the value of a financial instrument, or its net investment in its foreign subsidiaries, may fluctuate due to changes in foreign exchange rates. The Group's significant net foreign currency exposures as at 31 December 2017 are detailed in Note 28 to the Financial Statements.

Operational Risk

Operational risk is the risk of financial loss or damage resulting from inadequate or failed internal processes, people and systems or from external events.

Management of risk associated with carrying out the Group's operations is through internal procedures and monitoring and control mechanisms, while management of legal risk is through effective consultation with internal and external legal counsel. Other kinds of operational risk are managed by ensuring that trained and competent people – and appropriate infrastructure, controls and systems – are in place to ensure the identification, assessment and management of all substantial risks.

The Group is also exposed to risks relating to its fiduciary responsibilities towards fund providers. Fiduciary risk arises from the failure to perform in accordance with explicit and implicit standards applicable to an Islamic bank's fiduciary responsibilities, leading to losses in investments or failure to safeguard the interests of the investment account holders. Group subsidiaries have in place appropriate mechanisms to safeguard the interests of all fund providers. Where investment account holders' funds are commingled with an ABG subsidiary's own funds, the respective subsidiary ensures that the basis for asset, revenue, expense and profit allocations are established, applied and reported in a manner consistent with the Group's fiduciary responsibilities.

As mentioned above, Group policy dictates that the operational functions of booking, recording and monitoring transactions are carried out by staff independent of the staff initiating the transactions. Group subsidiaries have primary responsibility for identifying and managing their own operational risks. Each subsidiary is guided by policies, procedures and controls that are relevant for each function. Internal control policies and procedures dictate the segregation of duties, delegation of authorities, exceptions reporting, exposures management and reporting, and reconciliations, and are based on the submission of timely and reliable management reporting.

Separate and independent Internal Control units carry out ongoing monitoring of day-to-day procedures and ensure adherence to key control functions.

Information Security (Cyber Security) Risk

The Group continued with enhancing management of information security (cyber security) risk in 2017. It has assessed the risks, identified controls and is implementing solutions. The Group already has comprehensive IT security policy and procedures, which are in line with leading industry practices. The Information Security Risk Management Committee at Head Office met regularly in 2017 and continued implementing a new Information Risk Management Framework and Group Policy and Guidance.

Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material or financial loss or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, codes of conduct and standards. The landscape for compliance has changed substantially in recent years. As a result, ABG and its subsidiaries are continuously enhancing their compliance risk management framework. Please refer to separate section on Group Compliance function.

Shari'a Compliance Risk

Shari'a compliance risk arises from the failure to comply with the rules and principles of Shari'a and, in this respect, is akin to reputation risk. It also includes the risk of legal or regulatory sanctions that the Group or its subsidiaries may suffer as a result of failure to comply with laws and regulations. As mentioned above, the Group has in place a Compliance Policy that provides for the assessment of compliance risks, the implementation of appropriate controls, monitoring of effectiveness, and correction and eradication of exceptions. Group subsidiaries have in place systems and controls, including their respective Shari'a Supervisory Boards, to ensure compliance with all Shari'a rules and principles. In accordance with CBB regulations and AAOIFI Standards, the Group has been certified by the Unified Shari'a Supervisory Board to be in compliance with Shari'a Standards and Principles.

CAPITAL MANAGEMENT/CAPITAL ADEQUACY

Capital is managed at ABG with a view to meeting the capital maintenance requirements directed by the CBB and achieving optimum utilisation in the course of carrying out its business, in accordance with its predetermined risk appetite and intended risk profile, and with the ultimate aim of maximising shareholders' returns. Capital management includes pro-actively making appropriate and necessary adjustments to reflect changes in the economic environment or in the degree or nature of risk associated with the Group's activities, including adjustment to its dividend policy, issue of Tier 1 or Tier 2 securities by way of public issue or private placement, etc.

Optimum capital management, therefore, addresses such crucial issues as:

- ensuring that adequate capital is held at all times to meet unexpected calls occasioned by such events as sudden withdrawals by depositors, earlier than expected drawdown of facilities, or unexpected losses;
- achieving the Group's return on capital objectives;
- meeting capital adequacy ratio targets and regulatory imperatives; and
- maintaining the Group's strong credit rating.

The Group's capital adequacy ratio as at 31 December 2017 was 17.27%, comfortably above the CBB's minimum regulatory requirement of 12.5% (including CCB of 2.5%).

Each of ABG's banking subsidiaries is directly regulated by its own home regulator, which stipulates a minimum capital adequacy ratio for that subsidiary. ABG ensures that each subsidiary adheres to these local capital adequacy requirements.

INFORMATION TECHNOLOGY

The Head Office IT Steering Committee governs and supports IT strategies, policies, projects and initiatives across all ABG subsidiaries, and ensures that they are consistent with the Group's strategic aims as well as each subsidiary's local strategy. The Group's short, medium and long-term IT strategies are now well established, standardised around a few carefully chosen core banking solutions that have been successfully implemented across all ABG subsidiaries. The Head Office IT Steering Committee monitors the Group's IT strategy, updating it periodically to make sure it can enable ABG's strategic objectives.

ABG's web-based financial consolidation and reporting solution measures corporate performance against key performance indicators based on the Group's strategic objectives. It is used to set benchmarks for each subsidiary and to monitor their performances continuously. This tool captures data from each subsidiary in its local currency and performs monthly, quarterly and annual consolidations in US dollars. In this way, it enables the collection, processing, reporting and analysing of data from across the various subsidiaries.

Corporate Governance (Continued)

All of the Group subsidiaries have implemented core banking systems selected from a list approved by Head Office, so meeting central bank requirements for greater automation. The subsidiaries are now introducing satellite systems in areas such as risk management, cyber security, internet and mobile banking as well as many other areas. Following the merger of Al Baraka Bank (Pakistan) Ltd and Burj Bank Ltd in Pakistan, the two banks have started the process of adopting one banking system as part of their integration. Broadly speaking, the new core banking systems reduce the time to market for retail products and campaigns. They also increase automation, leading to greater effectiveness and efficiency.

The Head Office IT Steering Committee is working with subsidiaries to introduce systems that automate the process of complying with international anti-money laundering and know-your-client regulations, as well as the Foreign Account Tax Compliance Act (FATCA). These systems also screen transactions against the Office of Foreign Assets Control (OFAC) sanctions list.

Each subsidiary has a disaster recovery centre, which is tested and audited at least once a year. The Group is working towards a unified standard of business continuity and disaster recovery, helping all subsidiaries to adopt best practices.

A Group-level cyber security committee was set up in 2016 to make sure that the Group and its subsidiaries have the right people, technology and policies to guard against cyber frauds or attacks. The cyber security committee has completed gap analysis of information security framework in the units and is now working with the individual units to ensure that gaps in information security framework are rectified.

Sustainability and Social Responsibility

As an Islamic bank, Al Baraka Banking Group (ABG) conducts all its business in a sustainable and socially responsible manner. Making a positive, sustainable impact is part of the Group's philosophy and a strategic business goal.

The concept of Sustainability and Social Responsibility (SSR) fits naturally with the business ethics of Islam and, therefore, with ABG's foundation philosophy and vision.

Islam and SSR

Our philosophy is that Allah grants mankind the capacity to inherit the land on this earth and, therefore, that mankind is not the owner of wealth but is entrusted with it. As the purpose of mankind is to construct, embellish and build on this earth, we are therefore ordained to create opportunities for others. Thus, the wealth bestowed upon us must be invested in creating the wealth and opportunities in society.

As members of a banking group founded on Islamic principles and values, we at Al Baraka believe that we have an obligation to society, through patronage and sponsorship of a wide range of social projects, to enhance the living conditions and quality of life of needful individuals in the local communities where we operate. In making this commitment to society we strive to apply one of the important philosophical pillars of Islamic banking: the concept of E'mar Al Ardh– construction, or development, of land – which means adding tangible value to assets (whether natural or human).

This concept has a direct relevance to the development of society and its social and economic progress. The Group seeks to apply it through active investment mediation, which complements real and value-added production, and through the exchange of commodities and services, which enables us to offer practical alternatives to those financial intermediaries that provide no benefit to society at large.

Sustainability and social responsibility is fundamental to the Group's business model in all the countries where it operates. All the subsidiaries embrace Islamic ethical principles and apply them to their banking operations and services.

Three guiding principles

These principles may be summarised as:

1. Investments may only be made in sectors and industries that meet ethical standards. The moral values of Islam dictate that Muslims must only invest in the production of, and trade in, useful and beneficial goods. They, therefore, forbid investment activities such as the production of alcoholic beverages, tobacco or weapons; or those associated in any way with gambling, pornography or the abuse of children, women and minorities; or any other morally questionable practices.
2. All Islamic banks and financial institutions eschew the payment of interest to depositors, consumers and businesses, as Islam prohibits the paying or charging of interest. Instead ABG's banking subsidiaries, like all Islamic banks, accept deposits on an investment basis whereby depositors share with the bank in the actual results of the realisation of their investments. Financing is provided to businesses in turn mainly based on instalment sale, leasing or equity participation. In this way, ABG's subsidiaries and their depositors share financial risk with entrepreneurs and, together, they reap the benefits of the investments. The essential difference in Islam is that the practice of profit sharing is such that wealth creation is the result of a partnership between investors and entrepreneurs. Both the risks and the rewards are shared: returns on invested capital are based on profits actually generated rather than predetermined interest rates.
3. All contracts entered by ABG's banking subsidiaries, and all their relations with businesses and depositors, must comply with the ethical standards of the Shari'a.

The Al Baraka Sustainability and Social Responsibility Programme

In 2012, ABG established the "Al Baraka Social Responsibility Programme", the first such programme to be introduced by any Islamic banking and financial services institution. In 2017, the program has been renamed to "Al Baraka Sustainability and Social Responsibility programme".

The programme includes the following activities:

1. Assessing the social impact of ABG's business at the local and transactional levels.
2. Investing in and supporting socially responsible and sustainable businesses.
3. Supervising and monitoring development of the Al Baraka Microfinance Programme.
4. Supporting local economies.
5. Supporting healthcare projects and education.
6. Promoting Islamic classical arts and literature.
7. Promoting scholarly works of Islamic banking and finance.
8. Investing in people.
9. Nurturing and encouraging local talent.
10. Promoting programmes that protect the environment by adopting various conservation strategies, such as carbon mitigation, reduction of paper usage, energy and water conservation.

Governance

A Board Committee for Sustainability and Social Responsibility oversees the AlBaraka Sustainability and Social Responsibility Programme and the Department of Sustainability and Social Responsibility, which is also overseen directly by the President and CE. The Department's role is to:

1. Maintain the continuity of the Al Baraka Sustainability and Social Responsibility Programme, and update it with the most recent international research and popular strategies to enhance Shari'a objectives.
2. Manage and supervise the Group's implementation of the programme.
3. Ensure that the programme continues to set best practice within the Islamic banking and finance industry, by conducting Shari'a and economic analysis on the subject.
4. Provide appropriate guidance for the programme's implementation.
5. Compile, consolidate and publish annual and periodic social responsibility reports.
6. Develop and update procedures that may result in enhancing the adequacy and effectiveness of the programme at Group level.

7. Exercise all powers needed to achieve the programme's objectives and to remain consistent with the Committee's rationale.
8. Coordinate with other local and international social responsibility programmes.

A detailed report of the Group's activities and progress in the area of Sustainability and Social Responsibility is posted on the ABG website. Furthermore, a report covering progress over the past year will be available annually on that website. Each of ABG's subsidiaries will also produce an annual report of its activities in this area, which will similarly be available on their individual websites.

Activities

The Al Baraka Sustainability and Social Responsibility Programme is based on the following four pillars:

1. Al Baraka Philanthropic Programme: covering the promotion and funding of a broad spectrum of activities including the arts, literature and culture, scholarly and literary works, and activities aimed at aiding people with special needs and facilitating them in their own efforts through vocational training.
2. Al Baraka Economic Opportunities & Social Investments Programme: covering community development including financing and investments in projects supporting affordable housing and a spectrum of healthcare and related activities, micro, small and medium-sized enterprises, local and other industries.
3. Al Baraka Qard-Hassan Programme: covering benevolent loans extended on a charitable or goodwill basis.
4. Al Baraka Time Commitment Programme: ABG units commit a certain number of hours of their officers' time in social and educational contributions to the local community.

Al Baraka's target is to make all our businesses sustainable and socially responsible. As far as possible, we measure our progress. However, in some areas we are still developing the right tools to do so. Based on the existing measurement tools, Al Baraka's overall Sustainability and Social Responsibility Programme contributed US$6,021 million in 2016 to communities in financing and donation. This was a significant increase on the previous year's reported contribution due to a widening of reporting parameters to include for the first time the economic opportunities and social investments programme in Al Baraka Türk Participation Bank, our largest subsidiary.

Al Baraka Goals 2016-2020

The Group decided in 2016 to take our Social Responsibility Programme to yet another level. We plan to integrate specific targets and priorities for the next five years. Accordingly, by 2020 we would like to impact the communities we operate in by:

- Creating 51,000 jobs across the countries where the Group operates as a result of financing new and existing customers' operations.
- Financing and supporting over US$191 million of educational projects.
- Financing and supporting over US$434 million of healthcare projects.

The Al Baraka Goals are directly linked to the UN Global Goals for Sustainable Development (SDGs). In particular, our targets are focused on the following SDGs: no poverty (SDG 1), good health and well-being (SDG 3), quality education (SDG 4), gender equality (SDG 5), affordable and clean energy (SDG 7), decent work and economic growth (SDG 8), industry innovation and infrastructure (SDG 9).

In total, the Group pledged to contribute over US$635 million over the five years towards the Al Baraka Goals (2016-2020). It plans to do so through job creation, healthcare financing and donation, education financing and donation, and other initiatives that support the development of communities by actively using its financing operations towards these goals.

During 2017, Al Baraka carried out a full impact assessment of the progress in 2016 against the 2016-2020 goals. Al Baraka has exceeded all the 2016 targets of Al Baraka Goals (reporting lags by a year due to the time taken to collect reporting data). In 2016, the Group achieved the following:

- Helped to create 14,535 jobs, 42% ahead of the 2016 target.
- Helped to achieve US$41,596,059 of education funding / financing, 8% ahead of the 2016 target.
- Helped to achieve US$96,826,507 of healthcare funding/financing, 11% ahead of the 2016 target.

Credit approval process and Sustainability and Social Responsibility

We have developed an internal mechanism to ensure that our entire business model remains sustainable and socially responsible. We have added new procedures to our credit approval process as a result of which we will not only encourage our existing customers to adopt the Al Baraka Sustainability and Social Responsibility Priorities, but we will also give preference to working with such new customers who are equally committed to consistently adding more value to their respective communities.

The future

When ABG signed up to the UN Global Compact in 2016, it set out a path for the future in line with the Al Baraka Goals 2016-2020. Given that our business model is uniquely tailored around adding economic value to the communities that we serve, our contribution (and as a result our economic value-added contribution to society) will increase in line with our growth. We hope that our example will kick-start a trend in the Islamic banking industry.

Unified Shari'a Supervisory Board Report

For the year ended 31 December 2017

In the name of Allah, The Beneficent, The Merciful, Ever Merciful

Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles and Companions

To: Al Baraka Banking Group Shareholders

May peace and Allah's Mercy and Blessings Be upon You

In accordance with Article (58) of the Articles of Association of Al Baraka Banking Group, we are required to submit the following report:

First:

We have conducted six meetings during 2017 in which we studied Shari'a audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2017 and gave few Shari'a related comments on those reports. These reports were rectified through coordination between Shari'a Audit and the relative local subsidiaries' Shari'a Boards. In addition, the Unified Shari'a Supervisory Board replied to requests for fatwa from the Group and subsidiaries and studies the contracts entered into by the Group during the year 2017.

Second:

We have reviewed the principles applied by the Group and reviewed the 2017 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards. We have also reviewed their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2017 and Statement of Income and their notes for the year then ended. We have queried from some of the Technical's on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic Financial Institutions and according to what was approved by Al Baraka Symposium1/31and by the Unified Shari'a Supervisory Board.

Third:

The Group and Units' management are responsible for the execution and implementation of the Unified Shari'a Supervisory Board resolutions and to bring to the attention of the Unified Shari'a Supervisory Board any transactions or issues that require Shari'a approval. The Unified Shari'a Supervisory Board is responsible for supervising the implementation of the resolution from a Shari'a point of view and issue opinion based on the Group and Units' Shari'a reports and financial statements.

The Unit's Shari'a Supervisory Boards, as is clear from their report, have supervised the Units' business activities including examining on test basis documentations and procedures applied by the Group and its Units.

The Units' Shari'a Supervisory Boards, as is clear from their reports, planned and performed reviews so as to obtain all the information and explanations they considered necessary in order to provide them with sufficient evidence to provide reasonable assurance that the Group and its Units have not violated Shari'a Rules and Principles.

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31 December 2017 are made in compliance with Shari'a Rules and Principles.
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Units' Shari'a Supervisory Boards in accordance with Shari'a Rules and Principles.
3. All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been committed by the Management to dispose it off to Charitable Causes.
4. The attached Zakah calculation was prepared in accordance with the provisions and principles of Islamic Shari'a according to the Net Invested Fund Method in accordance to the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by the Unified Shari'a Supervisory Board.

As the General Assembly in its annual meeting conducted on 20 March 2017 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US$4,021 thousand as Zakah on behalf of the shareholders deducted from the Retained Earnings for the financial year of 2016. The Group has paid and distributed an amount of US$3,688 thousand to those who's entitled to receive Zakah as per Shari'a boundaries and as approved by Unified Shari'a Board. The remaining amount of US$333 thousand has been allocated to be paid maximum by end of first quarter of 2018.

For the year 2018, the Group is not required to pay Zakah on behalf of the shareholders, unless there is a direct empowerment from the general assembly to the Group to pay Zakah on the behalf of the shareholders. Therefore if the shareholders have not empower the Group to pay Zakah, the shareholders have to pay the Zakah related to their shares, which equal to US Cent 38.29 for each 100 shares . In case of unavailability of such empowerment, then the shareholders should pay their share of Zakah as per the enclosed calculation. In case of unavailability of liquidity, it is allowed to postpone the Zakah and become debt until the liquidity become available.

Praise be to Allah

Issued on 24 Jumada Al-ULA 1439 H, corresponding to 10 February 2018 AD.

Chairman and Members

Shaikh Dr. Abdul Sattar Abu Ghuddah
Chairman

Shaikh Dr. Abdulla bin Sulaiman Al Mannea
Vice Chairman

Shaikh Dr. Abdullatif Al Mahmood
Member

Shaikh Dr. Abdulaziz Al Fawzan
Member

Shaikh Dr. Ahmed Mohiyeldin Ahmed
Member

Zakah Calculation for the year ended 31 December 2017

	US$ '000
Equity Attributable to Shareholders	1,739,822
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Itqan Capital	(577,063)
Net Zakatable Equity Attributable to Shareholders	1,162,759
Less:	
Musharaka underlined by unzakatable assets	(170,730)
Investment in Islamic Sukuk underlined by unzakatable assets	(103,939)
Ijarah Muntahia Bittamleek	(359,922)
Long-term investment in real estate	(20,751)
Properties and equipment	(259,689)
Intangible assets	(75,408)
Investment in Associates	(35,071)
Prepayments	(16,727)
Deferred tax asset	(1,255)
Add:	
Shareholders share on Zakatable Assets by Associates	16,928
Sale of long-term investment in real estate during the year	5,533
Deferred tax liability	777
Employees' end of services benefit	35,319
Zakatable amount	**177,824**
Zakah Percentage	2.5775%
Total Zakah due	4,583
Number of Shares (thousands)	1,197,129
Zakah per share (US$ cents)	0.38

Independent Auditors' Report to the Shareholders of Al Baraka Banking Group B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Banking Group B.S.C. ("the Bank") and its subsidiaries ("the Group") as of 31 December 2017, and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2017, the results of its operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association having occurred during the year ended 31 December 2017 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst & Young

Partner's registration no. 45

20 February 2018

Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 US$ '000	2016 US$ '000
ASSETS			
Cash and balances with banks	3	**5,430,085**	5,073,418
Receivables	4	**12,001,050**	11,423,448
Mudaraba and Musharaka financing	5	**2,377,654**	1,582,396
Investments	6	**2,888,334**	2,629,131
Ijarah Muntahia Bittamleek	7	**1,856,018**	1,830,339
Property and equipment	8	**430,192**	417,295
Other assets	9	**469,878**	469,238
TOTAL ASSETS		**25,453,211**	23,425,265
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		**5,465,433**	4,983,772
Due to banks		**1,322,470**	918,395
Long term financing	10	**1,236,555**	1,381,256
Other liabilities	11	**1,035,983**	856,467
Total liabilities		**9,060,441**	8,139,890
EQUITY OF INVESTMENT ACCOUNTHOLDERS	12	**13,882,109**	13,276,794
OWNERS' EQUITY			
Share capital	13	**1,206,679**	1,149,218
Treasury shares	13	**(9,550)**	(9,588)
Share premium		**18,644**	18,574
Perpetual tier 1 capital	14	**400,000**	-
Reserves		**199,282**	181,971
Cumulative changes in fair values		**40,443**	41,271
Foreign currency translations	13	**(706,242)**	(666,719)
Retained earnings		**530,615**	497,374
Proposed appropriations		**60,334**	68,857
Equity attributable to parent's shareholders and Sukuk holders		**1,740,205**	1,280,958
Non-controlling interest		**770,456**	727,623
Total owners' equity		**2,510,661**	2,008,581
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**25,453,211**	23,425,265

Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and
President and Chief Executive

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2017

	Notes	2017 US$ '000	2016 US$ '000
INCOME			
Net income from jointly financed contracts and investments	15	**1,258,663**	1,336,569
Return on equity of investment accountholders before Group's share as a Mudarib		**(1,084,420)**	(1,114,019)
Group's share as a Mudarib	16	**377,735**	396,762
Return on equity of investment accountholders		**(706,685)**	(717,257)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)		**551,978**	619,312
Mudarib share for managing off-balance sheet equity of investment accountholders		**8,157**	5,022
Net income from self financed contracts and investments	15	**330,278**	285,499
Other fees and commission income	17	**157,894**	176,837
Other operating income	18	**35,383**	78,859
		1,083,690	1,165,529
Profit paid on long term financing	19	**(85,000)**	(91,370)
TOTAL OPERATING INCOME		**998,690**	1,074,159
OPERATING EXPENSES			
Staff expenses		**315,047**	325,501
Depreciation and amortisation	20	**47,398**	44,579
Other operating expenses	21	**205,872**	197,136
TOTAL OPERATING EXPENSES		**568,317**	567,216
NET OPERATING INCOME FOR THE YEAR BEFORE PROVISIONS AND IMPAIRMENT AND TAXATION		**430,373**	506,943
Provisions and impairment	22	**(131,807)**	(122,154)
NET INCOME BEFORE TAXATION		**298,566**	384,789
Taxation		**(91,647)**	(117,153)
NET INCOME FOR THE YEAR		**206,919**	267,636
Attributable to:			
Equity holders of the parent		**129,029**	151,545
Non-controlling interest		**77,890**	116,091
		206,919	267,636
Basic and diluted earnings per share - US cents	23	**9.47**	12.66

Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and
President and Chief Executive

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 US$ '000	2016 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		**298,566**	384,789
Adjustments for:			
Depreciation and amortisation	20	**47,398**	44,579
Depreciation on Ijarah Muntahia Bittamleek	15.4	**266,108**	238,315
Unrealised loss (gain) on equity and debt-type instruments at fair value through statement of income	15.3	**1,163**	(152)
Gain on sale of property and equipment	18	**(11,192)**	(14,804)
Gain on sale of investment in real estate	15.3	**(104)**	(5,502)
Loss (gain) on sale of equity type instruments at fair value through equity	15.3	**21**	(3,585)
Gain on sale of equity and debt-type instruments at fair value through statement of income	15.3	**(820)**	(667)
Income from associates	15.3	**(1,537)**	(2,059)
Provisions and impairment	22	**131,807**	122,154
Operating profit before changes in operating assets and liabilities		**731,410**	763,068
Net changes in operating assets and liabilities:			
Reserves with central banks		**(347,443)**	859,261
Receivables		**(703,668)**	443,093
Mudaraba and Musharaka financing		**(798,128)**	(40,793)
Ijarah Muntahia Bittamleek		**(291,788)**	(334,197)
Other assets		**(16,194)**	(24,167)
Customer current and other accounts		**481,670**	142,675
Due to banks		**404,075**	110,126
Other liabilities		**192,248**	10,143
Equity of investment accountholders		**609,334**	(1,238,504)
Taxation paid		**(96,516)**	(147,598)
Net cash from operating activities		**165,000**	543,107
INVESTING ACTIVITIES			
Net purchase of investments		**(267,314)**	495,992
Net purchase of property and equipment		**(39,195)**	2,890
Dividends received from associates		**659**	2,329
Disposal (purchase) of investment in associate		**858**	(14,587)
Net cash from (used in) from investing activities		**(304,992)**	486,624
FINANCING ACTIVITIES			
Long term financing		**(144,702)**	(115,952)
Dividends paid to equity holders of the parent		**(11,396)**	(22,143)
Net movement in treasury shares		**108**	(212)
Issuance of Tier 1 Capial		**400,000**	-
Profit distributed on perpetual tier 1 capital		**(15,750)**	-
Payment of expenses related to tier 1 capital		**(2,780)**	-
Net changes in non-controlling interest		**(20,012)**	(9,018)
Net cash from (used in) from financing activities		**205,468**	(147,325)
Foreign currency translation adjustments		**(56,252)**	(323,137)
NET CHANGES IN CASH AND CASH EQUIVALENTS		**9,224**	559,269
Cash and cash equivalents at 1 January		**2,851,958**	2,292,689
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**2,861,182**	2,851,958

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2017

	Attributable to equity holders of the parent and Sukuk holders													
					Reserves		Cumulative changes in fair values							
	Share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Perpetual tier 1 capital US$ '000	Statutory reserve US$ '000	Other reserves US$ '000	Investments US$ '000	Property and equipment US$ '000	Foreign currency translations US$ '000	Retained earnings US$ '000	Proposed appro- priations US$ '000	Total US$ '000	Non- controlling interest US$ '000	Total owners' equity US$ '000
Balance at 1 January 2017	1,149,218	(9,588)	18,574	-	139,740	42,231	4,971	36,300	(666,719)	497,374	68,857	1,280,958	727,623	2,008,581
Dividends paid	-	-	-	-	-	-	-	-	-	-	(11,396)	(11,396)	-	(11,396)
Bonus shares issued (note 13)	57,461	-	-	-	-	-	-	-	-	-	(57,461)	-	-	-
Movement in treasury shares	-	38	70		-	-	-	-	-	-	-	108	-	108
Net movement in cumulative change in fair value for investments	-	-	-	-	-	-	(828)	-	-	-	-	(828)	(851)	(1,679)
Net movement in other reserves	-	-	-	-	-	4,408	-	-	-	-	-	4,408	2,533	6,941
Foreign currency translation	-	-	-	-	-	-	-	-	(39,523)	-	-	(39,523)	(16,728)	(56,251)
Net income for the year	-	-	-	-	-	-	-	-	-	129,029	-	129,029	77,890	206,919
Transfer to statutory reserve (note 13)	-	-	-	-	12,903	-	-	-	-	(12,903)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	-	(24,134)	24,134	-	-	-
Proposed bonus shares	-	-	-	-	-	-	-	-	-	(36,200)	36,200	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(31,941)	(31,941)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	-	(4,021)	-	(4,021)	-	(4,021)
Perpetual tier 1 capital (note 14)	-	-	-	400,000	-	-	-	-	-	-	-	400,000	-	400,000
Expenses related to perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(2,780)	-	(2,780)	-	(2,780)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(15,750)	-	(15,750)	-	(15,750)
Net movement in non- controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	11,930	11,930
Balance at 31 December 2017	**1,206,679**	**(9,550)**	**18,644**	**400,000**	**152,643**	**46,639**	**4,143**	**36,300**	**(706,242)**	**530,615**	**60,334**	**1,740,205**	**770,456**	**2,510,661**

	Attributable to equity shareholders of the parent												
				Reserves		Cumulative changes in fair values							
	Share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Other reserves US$ '000	Investments US$ '000	Property and equipment US$ '000	Foreign currency translations US$ '000	Retained earnings US$ '000	Proposed appropriations US$ '000	Total US$ '000	Non- controlling interest US$ '000	Total owners' equity US$ '000
Balance at 1 January 2016	1,115,746	(8,464)	17,662	124,585	40,874	2,229	36,300	(461,948)	433,631	55,787	1,356,402	738,181	2,094,583
Dividends paid	-	-	-	-	-	-	-	-	172	(22,315)	(22,143)	-	(22,143)
Bonus shares issued (note 13)	33,472	-	-	-	-	-	-	-	-	(33,472)	-	-	-
Movement in treasury shares	-	(1,124)	912	-	-	-	-	-	-	-	(212)	-	(212)
Net movement in cumulative change in fair value for investments	-	-	-	-	-	2,742	-	-	-	-	2,742	579	3,321
Net movement in other reserves	-	-	-	-	1,357	-	-	-	-	-	1,357	156	1,513
Foreign currency translation	-	-	-	-	-	-		(204,771)	-	-	(204,771)	(118,366)	(323,137)
Net income for the year	-	-	-	-	-	-	-	-	151,545	-	151,545	116,091	267,636
Transfer to statutory reserve	-	-	-	15,155	-	-	-	-	(15,155)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	(11,396)	11,396	-	-	-
Proposed bonus shares	-	-	-	-	-	-	-	-	(57,461)	57,461	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(31,424)	(31,424)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	(3,962)	-	(3,962)	-	(3,962)
Net movement in non- controlling interest	-	-	-	-	-	-	-	-	-	-	-	22,406	22,406
Balance at 31 December 2016	1,149,218	(9,588)	18,574	139,740	42,231	4,971	36,300	(666,719)	497,374	68,857	1,280,958	727,623	2,008,581

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Changes in Off-Balance Sheet Equity of Investment Accountholders

For the year ended 31 December 2017

	Cash	Sales receivables	Mudaraba financing	Investment in real estate	Ijarah Muntahia Bittamleek	Investments	Others	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January 2017	73,558	223,323	286,201	38,150	82,962	157,672	10,177	872,043
Deposits	209,723	235,941	193,416	10,624	48,757	78,964	63,233	840,658
Withdrawals	(250,085)	(299,601)	(193,622)	(450)	(22,081)	(39,760)	(26,495)	(832,094)
Income net of expenses	-	30,793	6,662	366	3,321	1,558	(233)	42,467
Mudarib's share	-	(6,790)	-	(279)	(614)	(370)	(104)	(8,157)
Foreign exchange translations	-	(5,873)	-	-	-	(7,276)	1,612	(11,537)
Balance at 31 December 2017	**33,196**	**177,793**	**292,657**	**48,411**	**112,345**	**190,788**	**48,190**	**903,380**
Balance at 1 January 2016	11,579	170,139	257,719	38,277	81,173	200,535	18,537	777,959
Deposits	203,295	218,488	493,715	889	22,485	34,223	29,845	1,002,940
Withdrawals	(141,316)	(165,701)	(474,455)	(1,474)	(27,893)	(78,255)	(31,333)	(920,427)
Income net of expenses	-	22,922	9,664	495	7,782	3,653	(690)	43,826
Mudarib's share	-	(3,452)	(442)	(37)	(585)	(365)	(141)	(5,022)
Foreign exchange translations	-	(19,073)	-	-	-	(2,119)	(6,041)	(27,233)
Balance at 31 December 2016	73,558	223,323	286,201	38,150	82,962	157,672	10,177	872,043

The attached notes 1 to 30 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2017

1. CORPORATE INFORMATION AND ACTIVITIES

Al Baraka Banking Group B.S.C. ("the Bank") is a joint stock company incorporated in the Kingdom of Bahrain on 27 June 2002, under Commercial Registration (CR) number 48915. The Bank is engaged in banking activities in the Middle East, Europe, North African and South African region. The address of the Bank's registered office is Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain. The Bank is listed on Bahrain Bourse and NASDAQ Dubai.

The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain ('the CBB').

The principal activities of the Bank and its subsidiaries ("the Group") comprise of international and commercial banking, financing, treasury and investment activities. The Bank is supervised and regulated by the CBB.

The consolidated financial statements were approved by the Board of Directors on 20 February 2018.

2. ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate, equity and debt-type instruments at fair value through statement of income, equity-type instruments at fair value through equity and land occupied by the Group (classified as property and equipment) that have been measured at fair value. The consolidated financial statements are presented in United States Dollars ('US$') being the functional and reporting currency of the Group. All values are rounded to the nearest US$ thousand ('US$ '000') unless otherwise indicated.

Statement of compliance

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('the IFRS') as issued by the International Accounting Standards Board (the 'IASB'), given it does not contradict with Shari'a Rules and Principles and the conceptual framework of AAOIFI.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's owners' equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as an owners' equity transaction.

Notes to the Consolidated Financial Statements

At 31 December 2017

2. ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The following are the principal subsidiaries of the Bank, which are consolidated in these consolidated financial statements:

	Ownership for 2017	Ownership for 2016	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2017
Held directly by the Bank					
Banque Al Baraka D'Algerie (BAA)	**55.90%**	55.90%	1991	Algeria	**29**
Al Baraka Islamic Bank - Bahrain (AIB)	**91.12%**	91.12%	1984	Bahrain	**196**
Al Baraka Bank Tunis (ABT)	**78.40%**	78.40%	1983	Tunisia	**37**
Al Baraka Bank Egypt (ABE)	**73.68%**	73.68%	1980	Egypt	**32**
Al Baraka Bank Lebanon (ABBL)	**98.94%**	98.94%	1991	Lebanon	**7**
Jordan Islamic Bank (JIB)	**66.01%**	66.01%	1978	Jordan	**100**
Al Baraka Turk Participation Bank (ATPB)	**56.64%**	56.64%	1985	Turkey	**220**
Al Baraka Bank Limited (ABL)	**64.51%**	64.51%	1989	South Africa	**12**
Al Baraka Bank Sudan (ABS)	**75.73%**	75.73%	1984	Sudan	**27**
Al Baraka Bank Syria (ABBS) *	**23.00%**	23.00%	2009	Syria	**13**
BTI Bank	**49.00%**	0%	2017	Morocco	**1**

* During December 2017, BTI Bank was established in Morocco. The Group consolidate BTI Bank (49% ownership), Al Baraka Bank Syria (23% ownership) and Al Baraka Sukuk Limited SPV (0% ownership) due to the Group's control through the power to govern their financial and operating policies.

The following are the subsidiaries held indirectly through the principal subsidiaries of the Bank:

	Subsidiary held through	Effective Ownership for 2017	Effective Ownership for 2016	Year of incorporation	Country of incorporation
Held indirectly by the Bank					
Al Baraka Bank (Pakistan) Limited	AIB	**53.88%**	52.30%	2010	Pakistan
Itqan Capital	AIB	**75.69%**	75.69%	2007	Saudi Arabia
Al-Omariya School Company	JIB	**65.61%**	65.61%	1987	Jordan
Al-Samaha Real Estate Company	JIB	**66.01%**	66.01%	1998	Jordan
Future Applied Computer Technology Company	JIB	**66.01%**	66.01%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	**66.01%**	66.01%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	**64.51%**	64.51%	1991	South Africa

Significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as of 1 January 2017:

New standards, interpretations and amendments adopted by the Group

FAS 30 Impairment, credit losses and onerous commitments

Implementation Strategy

In November 2017, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Financial Accounting Standard (FAS) 30 - Impairment, credit losses and onerous commitments, the standard supersedes the earlier FAS 11 "Provisions and Reserves" effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted. The Group considers it as a significant project and therefore has set up a multidisciplinary implementation team with members from its Credit risk and Modeling, Finance, IT, Operations, and respective businesses to achieve a successful and robust implementation. The project is managed by a dedicated committee, chaired by the Head of Finance and vice chaired by the Head of Credit and Risk Management.

Credit losses approach

The Group will recognize credit losses allowances based on a forward looking Expected Credit Loss (ECL) approach on all established receivables and off-balance sheet exposures including guarantees, letters of credit, promise-based foreign exchange and other similar positions.

2. ACCOUNTING POLICIES (Continued)

Significant accounting policies (continued)

Credit losses approach (continued)

The Group will categorizes its assets subject to credit losses into the following three stages in accordance with the FAS 30 methodology

- Stage 1 – Performing assets: asset(s) that are not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL
- Stage 2 – Underperforming assets: asset(s) that has significantly deteriorated in credit quality since origination. The credit losses will be recorded based on life time ECL.
- Stage 3 – Impaired assets: For asset(s) that are impaired, the Bank will recognize the impairment allowance based on life time ECL.

The Group will also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., fiscal deficit, GDP growth, inflation, government spending, profit rates and oil prices) and economic forecasts obtained through internal and external sources.

To evaluate a range of possible outcomes, the Group intends to formulate various scenarios. For each scenario, the Group will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

The Group will early adopt FAS 30 during 2018 and currently in the final phase of implementation, where by parallel run exercise is currently in under process together with various level of validation.

Impairment approach

The Group will recognize impairment losses on all other financing and investment assets and exposures subject to risks other than credit risk (other than inventories), other than investments carried at fair value through income statement.

The impairment losses will be measured by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount will be the higher of its fair value less costs of disposal and its value in use

Net realizable value approach

The Group will recognize impairment on inventories recognized as a result of financial transactions which are based on a trade based structure e.g. deferred payment sales including Murabaha, installment sales, Salam or Istisna'a.

The Group subsequent to the initial recognition, all inventories will be measured at the lower of cost and net realizable value. The net realisable value, is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, considering the factors specific to the Group.

Provision for onerous contract or commitment to acquire an asset

The Group will recognize provision when the Group is obligated to acquire an asset under a future commitment or contracts permissible to be entered in the future, and it is expected that the obligation under the contract or commitment is higher than the economic benefits expected to flow through acquisition of such asset. In such situation, the Group will create a provision on this account reflecting the expected losses arising on such transaction.

Expected Impact

The Group has reviewed its assets and is expecting the following impact from the early adoption of the FAS 30 on January 1, 2018:

- According to transitional provisions for initial application of FAS 30, the Group is allowed to recognised any difference between previous carrying amount under FAS 11 and the carrying amount of losses that is attributable to the shareholders at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings, and the cumulative charge attributable to participatory stakeholders, including unrestricted investment account holders related to previous periods, shall be adjusted with an allocation from the respective Investment Risk Reserve with due Shari'ah approvals. And in case of a shortfall, an allocation may be made from the respective Profit Equalization Reserve with due Shari'ah approvals. In case of still a shortfall, a temporary transfer with Shari'ah approval may be made from shareholders' equity.

Accordingly, the effect is approximated to be US$50 million on the date of initial application in opening retained earnings.

- The new standard also introduces disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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At 31 December 2017

2. ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Governance and controls

The Group has a centrally managed FAS 30 committee chaired by the Group's Head of Finance and vice chaired by Head of Credit and Risk Management and includes subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The Group's work to date has covered performing and developing an impairment methodology to support the calculation of the Expected Credit Loss (ECL) allowance. Specifically, during 2017 the Group developed its approach for assessing significant increase in credit risk ("SICR"), incorporating forward looking information, including macro-economic factors and preparing the required IT systems and process architecture. The Group has performed a full end to end parallel run based on [31 December 2017] data to assess procedural readiness. Overall governance of the program's implementation is through the FAS 30 Steering Committee and includes representation from Finance, Risk and IT. The Group is in the process of enhancing its governance framework to implement appropriate validations and controls over new key processes and significant areas of judgment such as SICR determining and applying forward looking information in multiple economic scenarios and computation of ECL.

The estimated decrease in shareholders' equity includes the impact of both balance sheet changes and the increase to credit impairment provisions compared to those applied at 31 December 2017 under FAS 11. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of FAS 30 on the Group could vary significantly from this estimate. The Group continues to refine models, methodologies and controls, and monitor developments in regulatory rule-making in advance of FAS 30 early adoption on 1 January 2018. Although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended time. As a result, the Group has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework. All estimates are based on the Group's current interpretation of the requirements of FAS 30, reflecting industry guidance and discussions to date.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

a. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and cash in transit, balances with central banks excluding mandatory reserves and balances with other banks with an original maturity of three months or less.

b. Receivables

Receivables comprise Sales (Murabaha) receivables, Ijarah receivables, Salam receivables and Istisna'a receivables.

Sales (Murabaha) receivables

Sales (Murabaha) receivables consist mainly of murabaha and international commodities stated net of deferred profits and provision for doubtful amount. The Group considers promise made in sales (murabaha) receivables to the purchase orderer as obligatory.

Ijarah receivables

Ijarah receivables is the outstanding rental at the end of the year less any provision for doubtful amount.

Salam receivables

Salam receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

Istisna'a receivables

Istisna'a receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

c. Mudaraba and Musharaka financing

Mudaraba and Musharaka financing are partnerships in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

d. Investments

Investments comprise equity and debt-type instruments at fair value through statement of income, equity-type instruments at fair value through equity, debt-type instruments at amortised cost, investment in real estate and investment in associates.

Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

2. ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

d. Investments (continued)

Investment in real estate (continued)

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

Investment in associates

The Group's investment in associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Equity and debt-type instruments at fair value through statement of income

This includes instruments held for trading purposes to gain profits from market fluctuations in the short term. These are initially recognised at cost, being the fair value of the consideration given excluding acquisition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

All other investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Equity-type instruments at fair value through equity

This includes all instruments that are not covered above. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

Debt-type instruments at amortised cost

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

e. Ijarah Muntahia Bittamleek

Assets acquired for leasing (Ijarah) are stated at cost, less accumulated depreciation.

Depreciation is provided on the straight line method over the useful life of the asset or the period of the lease, whichever is lower.

f. Property and equipment

Property and equipment are initially recognised at cost. Subsequent to initial recognition property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value, except for land which is carried at fair value. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets other than freehold land, which is deemed to have an indefinite life.

The calculation of depreciation is on the following basis:

Buildings	30 - 50 years
Office furniture and equipment	4 - 10 years
Vehicles	3 years
Others	4 - 5 years

2. ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

g. Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

For Sales (Murabaha) receivables the fair value is determined at the Bank or subsidiary level at the end of the financial period at their cash equivalent value.

h. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

i. Intangible assets

Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

j. Collateral pending sale

Collateral acquired in settlement of certain financing facilities is stated at the lower of the net realisable value of the related financing facilities and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

k. Employees' end of service benefits

The Group provides for end of service benefits to its employees. Entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued for over the period of employment.

l. Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

m. Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

n. Equity of investment accountholders

All equity of investment accountholders are carried at cost plus accrued profit and related reserves. Investment risk reserves and profit equalisation reserves are made at the Bank or subsidiary level.

o. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the mudarib share, in order to cater against future losses for equity of investment accountholders.

p. Profit equalisation reserve

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for equity of investment accountholders.

q. Sukuk

Sukuk issued by the Group are treated based on the underlying contracts and structure.

r. Off-balance sheet equity of investment accountholders

Off-balance sheet equity of investment accountholders represent funds received by the Group from third parties for investment in specified products as directed by them. These products are managed in a fiduciary capacity and the Group has no entitlement to these products. Third parties bear all of the risks and earn all of the rewards on these products. Off-balance sheet equity of investment accountholders are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these products except within the conditions of the contract between the Group and third parties.

2. ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

s. Treasury shares
Own equity instruments which are reacquired (treasury shares) are deducted from equity of the parent and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity of the parent. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

t. Revenue recognition

Sales (Murabaha) receivables
Profit from Sales (Murabaha) receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Salam and Istisna'a receivables
Income on Salam and Istisna'a is recognised on time-apportioned basis when the income from a contract is contractually determinable or quantifiable.

Mudaraba and Musharaka financing
Income on Mudaraba and Musharaka financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Ijarah Muntahia Bittamleek
Income net of depreciation is recognised on a time-apportioned basis over the lease term.

Fee and commission income
Fee and commission income is recognised when earned.

Other income
Other income on investments is recognised when the right to receive payment is established..

Group's share as a Mudarib
The Group's share of profit as a Mudarib for managing equity of investment accountholders is based on the terms and conditions of the related mudarib agreements.

Mudarib's share of off-balance sheet equity of investment accountholders
The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

u. Return on equity of investment accountholders
Equity of investment accountholders' share of income is calculated based on the applicable local laws and based on the underlining individual Mudaraba contract. It represents the income generated from joint investment accounts and after deducting other expenses. Other expenses include all expenses incurred by the Group including specific provisions. The Group's share is deducted before distributing such income.

v. Joint and self financed
Investments, financing and receivables that are jointly owned by the Group and the equity of investment accountholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are financed solely by the Group are classified under "self financed".

w. Taxation
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate. The Group accounts for its share of associates profit after accounting for corporate taxation. Deferred income tax is provided using the liability method on temporary differences at the financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

x. Shari'a supervisory board
The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of five members appointed by the general assembly.

y. Zakah
The article of association of Al Baraka Banking Group is not empowering the Group for paying Zakah on behalf of the shareholders and there is no such law in Kingdom of Bahrain requiring the Group to pay Zakah on behalf of the shareholders, unless there is a direct empowerment from the general assembly to the Group to pay Zakah on behalf of the shareholders.

z. Earnings prohibited by Shari'a
The Group is committed to avoid recognising any income generated from non-Islamic source. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for various social welfare activities.

aa. Impairment of financial assets
An assessment is made at each financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

2. ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

aa. Impairmenrt of fianncial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income.

In addition, the Group maintains a provision to reflect a potential loss that may occur as a result of currently unidentifiable risks in relation to receivables, financings or investment assets. The amount reflects estimated losses affecting these assets attributable to events that have already occurred at the date of the financial statements, and not estimated losses attributable to future events.

bb. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

cc. Foreign currencies

Foreign currency transactions at the subsidiary level

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. The monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the financial position date. All differences are taken to income statement at the entity level.

Foreign currency translations

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollars) at the rate of exchange ruling at the financial position date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in owners' equity relating to that particular foreign entity is recognised in the consolidated statement of income.

dd. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which affects the amounts recognised in the consolidated financial statements:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as equity and debt-type instrument at fair value through statement of income, equity-type instrument at fair value through equity or debt-type instrument at amortised cost.

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

ee. Use of estimates in preparation of the consolidated financial statements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the consolidated financial statements. The use of estimates is used primarily to the determination of provisions for sales (Murabaha) receivable, mudaraba financing, musharaka financing, equity-type instrument at fair value through equity, debt-type instrument at amortised cost, ijarah receivable and other assets.

ff. Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) the right to receive cash flows from the asset has expired;

(ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

3. CASH AND BALANCES WITH BANKS

	2017 **US$ '000**	2016 US$ '000
Balances with central banks*	**4,102,938**	3,883,925
Balances with other banks	**602,517**	585,491
Cash and cash in transit	**724,630**	604,002
	5,430,085	5,073,418

* Balances with central banks include mandatory reserves amounting to US$ 2,568,903 thousand (2016: US$ 2,221,460 thousand). These amounts are not available for use in the Group's day-to-day operations.

Notes to the Consolidated Financial Statements

At 31 December 2017

4. RECEIVABLES

	2017 US$ '000	2016 US$ '000
Sales (Murabaha) receivables (note 4.1)	**11,627,669**	11,119,981
Ijarah receivables (note 4.2)	**68,620**	57,086
Salam receivables (note 4.3)	**188,035**	154,649
Istisna'a receivables (note 4.4)	**116,726**	91,732
	12,001,050	11,423,448

4.1 Sales (Murabaha) receivables

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
International commodity murabaha	**85,430**	**395,079**	**480,509**	22,247	299,812	322,059
Other murabaha	**2,385,059**	**10,853,317**	**13,238,376**	2,273,439	10,430,331	12,703,770
Gross sales (murabaha) receivables	**2,470,489**	**11,248,396**	**13,718,885**	2,295,686	10,730,143	13,025,829
Deferred profits	**(392,657)**	**(1,329,298)**	**(1,721,955)**	(340,823)	(1,210,482)	(1,551,305)
	2,077,832	**9,919,098**	**11,996,930**	1,954,863	9,519,661	11,474,524
Provisions (note 22)	**(100,883)**	**(268,378)**	**(369,261)**	(79,487)	(275,056)	(354,543)
Net sales (murabaha) receivables	**1,976,949**	**9,650,720**	**11,627,669**	1,875,376	9,244,605	11,119,981

	2017 US$ '000	2016 US$ '000
Non-performing	**587,323**	564,550

4.2 Ijarah receivables

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross ijarah receivables	-	**81,970**	**81,970**	-	69,557	69,557
Provisions (note 22)	-	**(13,350)**	**(13,350)**	-	(12,471)	(12,471)
Net ijarah receivables	-	**68,620**	**68,620**	-	57,086	57,086

	2017 US$ '000	2016 US$ '000
Non-performing	**56,190**	59,539

4.3 Salam receivables

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross salam receivables	-	**193,910**	**193,910**	-	160,603	160,603
Provisions (note 22)	-	**(5,875)**	**(5,875)**	-	(5,954)	(5,954)
Net salam receivables	-	**188,035**	**188,035**	-	154,649	154,649

	2017 US$ '000	2016 US$ '000
Non-performing	**17,564**	13,763

4. RECEIVABLES (Continued)

4.4 Istisna'a receivables

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross istisna'a receivables	-	118,116	118,116	-	94,007	94,007
Provisions (note 22)	-	(1,390)	(1,390)	-	(2,275)	(2,275)
Net istisna'a receivables	-	116,726	116,726	-	91,732	91,732

	2017 US$ '000	2016 US$ '000
Non-performing	6,917	6,868

5. MUDARABA AND MUSHARAKA FINANCING

	2017 US$ '000	2016 US$ '000
Mudaraba financing (note 5.1)	1,400,598	821,729
Musharaka financing (note 5.2)	977,056	760,667
	2,377,654	1,582,396

5.1 Mudaraba financing

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross mudaraba financing	549,551	863,985	1,413,536	277,816	555,861	833,677
Provisions (note 22)	-	(12,938)	(12,938)	-	(11,948)	(11,948)
Net mudaraba financing	549,551	851,047	1,400,598	277,816	543,913	821,729

	2017 US$ '000	2016 US$ '000
Non-performing	10,285	12,351

5.2 Musharaka financing

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross musharaka financing	280,969	705,216	986,185	146,365	620,903	767,268
Provisions (note 22)	(235)	(8,894)	(9,129)	-	(6,601)	(6,601)
Net musharaka financing	280,734	696,322	977,056	146,365	614,302	760,667

	2017 US$ '000	2016 US$ '000
Non-performing	22,152	20,154

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At 31 December 2017

6. INVESTMENTS

	2017 US$ '000	2016 US$ '000
Equity and debt-type instruments at fair value through statement of income (note 6.1)	**271,096**	27,842
Equity-type instruments at fair value through equity (note 6.2)	**103,818**	107,225
Debt-type instruments at amortised cost (note 6.3)	**2,250,552**	2,250,764
	2,625,466	2,385,831
Investment in real estate (note 6.4)	**211,157**	191,565
Investment in associates (note 6.5)	**51,711**	51,735
	2,888,334	2,629,131

6.1 Equity and debt-type instruments at fair value through statement of income

	2017			2016		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Debts	**6,797**	**515**	**7,312**	6,865	1,504	8,369
Equities	**262,880**	**775**	**263,655**	286	642	928
	269,677	**1,290**	**270,967**	7,151	2,146	9,297
Unquoted investments						
Debts	**7**	**-**	**7**	-	-	-
Equities	**122**	**-**	**122**	18,545	-	18,545
	129	**-**	**129**	18,545	-	18,545
	269,806	**1,290**	**271,096**	25,696	2,146	27,842

6.2 Equity-type instruments at fair value through equity

	2017			2016		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Equities	**13,129**	**32,932**	**46,061**	12,009	34,467	46,476
Managed funds	**7,274**	**4,636**	**11,910**	11,842	6,636	18,478
	20,403	**37,568**	**57,971**	23,851	41,103	64,954
Unquoted investments						
Equities	**28,743**	**8,389**	**37,132**	26,987	7,779	34,766
Managed funds	**932**	**12,492**	**13,424**	668	9,735	10,403
	29,675	**20,881**	**50,556**	27,655	17,514	45,169
Provisions (note 21)	**(2,461)**	**(2,248)**	**(4,709)**	(774)	(2,124)	(2,898)
	47,617	**56,201**	**103,818**	50,732	56,493	107,225

6. INVESTMENTS (Continued)

6.3 Debt-type instruments at amortised cost

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Sukuk and similar items	581,817	711,564	1,293,381	607,418	604,812	1,212,230
Unquoted investments						
Sukuk and similar items	120,838	843,320	964,158	136,078	906,718	1,042,796
Provisions (note 22)	(2,500)	(4,487)	(6,987)	(2,500)	(1,762)	(4,262)
	700,155	1,550,397	2,250,552	740,996	1,509,768	2,250,764

6.4 Investment in real estate

	2017			2016		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land	1,311	128,936	130,247	756	106,559	107,315
Buildings	7,376	73,534	80,910	7,994	76,256	84,250
	8,687	202,470	211,157	8,750	182,815	191,565

The following is a reconciliation between carrying amounts of investment in real estate at the beginning and end of the year:

	2017 US$ '000	2016 US$ '000
Beginning balance of the year	191,565	187,412
Acquisitions	24,698	14,479
Net gain (loss) from fair value adjustments	5,503	1,253
Disposals	(4,016)	(8,660)
Foreign exchange translation / others - net	(6,593)	(2,919)
	19,592	4,153
Ending balance of the year	211,157	191,565

6.5 Investment in associates

Investment in associates comprise the following:

	2017			
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Market value US$ '000
Quoted associates	-	11,824	11,824	11,410
Unquoted associates	39,887	-	39,887	
	39,887	11,824	51,711	

	2016			
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Market value US$ '000
Quoted associates	-	10,802	10,802	9,729
Unquoted associates	40,814	119	40,933	
	40,814	10,921	51,735	

7. IJARAH MUNTAHIA BITTAMLEEK

	2017			2016		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land and building						
Cost	**142,061**	**1,786,674**	**1,928,735**	179,444	1,730,599	1,910,043
Accumulated depreciation	**(26,822)**	**(365,554)**	**(392,376)**	(27,795)	(472,851)	(500,646)
Net book value	**115,239**	**1,421,120**	**1,536,359**	151,649	1,257,748	1,409,397
Equipment						
Cost	**134,129**	**296,447**	**430,576**	130,730	368,355	499,085
Accumulated depreciation	**(38,696)**	**(93,756)**	**(132,452)**	(22,326)	(90,333)	(112,659)
Net book value	**95,433**	**202,691**	**298,124**	108,404	278,022	386,426
Others						
Cost	**-**	**34,677**	**34,677**	-	56,469	56,469
Accumulated depreciation	**-**	**(13,142)**	**(13,142)**	-	(21,953)	(21,953)
Net book value	**-**	**21,535**	**21,535**	-	34,516	34,516
TOTAL						
Cost	**276,190**	**2,117,798**	**2,393,988**	310,174	2,155,423	2,465,597
Accumulated depreciation	**(65,518)**	**(472,452)**	**(537,970)**	(50,121)	(5,85,137)	(635,258)
Net book value	**210,672**	**1,645,346**	**1,856,018**	260,053	1,570,286	1,830,339

8. PROPERTY AND EQUIPMENT

	Buildings US$ '000	Lands US$ '000	Office furniture and equipment US$ '000	Vehicles US$ '000	Others US$ '000	Total US$ '000
Cost:						
At 1 January 2016	176,895	162,936	209,975	11,634	100,891	662,331
Additions	46,288	20,618	19,450	1,282	23,135	110,773
Disposals	(2,319)	(654)	(1,507)	(872)	(52,979)	(58,331)
Foreign exchange translations	(20,948)	(19,834)	(20,708)	(1,248)	(12,559)	(75,297)
At 31 December 2016	199,916	163,066	207,210	10,796	58,488	639,476
Additions	19,120	26,471	28,846	1,414	30,154	106,005
Disposals	(14,047)	(1,193)	(2,151)	(744)	(23,778)	(41,913)
Foreign exchange translations	(2,461)	(8,617)	(5,138)	(670)	(2,794)	(19,680)
At 31 December 2017	**202,528**	**179,727**	**228,767**	**10,796**	**62,070**	**683,888**
Depreciation:						
At 1 January 2016	61,744	-	132,019	5,453	18,507	217,723
Provided during the year (note 20)	9,750	-	22,217	1,265	5,996	39,228
Relating to disposals	(677)	-	(835)	(573)	(565)	(2,650)
Foreign exchange translations	(18,766)	-	(8,956)	(668)	(3,730)	(32,120)
At 31 December 2016	52,051	-	144,445	5,477	20,208	222,181
Provided during the year (note 20)	13,693	-	19,540	869	3,387	37,489
Relating to disposals	(1,021)	-	(1,959)	(242)	(278)	(3,500)
Foreign exchange translations	(1,733)	-	778	(358)	(1,161)	(2,474)
At 31 December 2017	**62,990**	**-**	**162,804**	**5,746**	**22,156**	**253,696**
Net book values:						
At 31 December 2017	**139,538**	**179,727**	**65,963**	**5,050**	**39,914**	**430,192**
At 31 December 2016	147,865	163,066	62,765	5,319	38,280	417,295

9. OTHER ASSETS

	2017 US$ '000	2016 US$ '000
Bills receivables	**149,661**	144,327
Goodwill and intangible assets (note 9 (a))	**86,837**	91,735
Collateral pending sale	**73,222**	62,151
Good faith qard	**20,254**	19,136
Deferred taxation	**35,808**	34,693
Prepayments	**41,039**	40,540
Others	**78,252**	91,485
	485,073	484,067
Provisions (note 22)	**(15,195)**	(14,829)
	469,878	469,238

9 (a) Goodwill and intangible assets

	2017			2016		
	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000
At 1 January	**70,166**	**21,569**	**91,735**	72,781	29,503	102,284
Additions	**-**	**14,860**	**14,860**	10,498	9,134	19,632
Amortisation charge for the year (note 20)	**-**	**(9,909)**	**(9,909)**	-	(5,351)	(5,351)
Impairment loss for the year	**-**	**-**	**-**	(9,082)	-	(9,082)
Foreign exchange translations	**(8,827)**	**(1,022)**	**(9,849)**	(4,031)	(11,717)	(15,748)
At 31 December	**61,339**	**25,498**	**86,837**	70,166	21,569	91,735

Goodwill acquired through business combinations with indefinite lives have been allocated to four individual cash-generating units. The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2017 US$ '000	2016 US$ '000
Al Baraka Turk Participation Bank	**13,531**	14,572
Al Barak Bank Egypt	**824**	767
Jordan Islamic Bank	**26,646**	26,646
Al Baraka Bank (Pakistan) Limited	**20,338**	28,181
	61,339	70,166

The recoverable amounts of the cash-generating units were determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. Management determined budgeted spreads based on the cash-generating units' past performance and its expectation of market development.

10. LONG TERM FINANCING

	2017 US$ '000	2016 US$ '000
Murabaha financing	**622,006**	762,752
Subordinated financing obtained by a subsidiary	**453,416**	456,600
Wakala	**161,133**	161,904
	1,236,555	1,381,256

Murabaha financing and wakala

During 2014, ATPB issued sukuk listed in Irish Stock Exchange for a tenure of 5 years with an expected profit rate of 6.25%, through its fully owned subsidiary Bereket Varlık Kiralama A.S., amounting to US$ 350 million. The sukuk subscriptions to an extent of not less than 51% will be utilised to purchase asset portfolio based on wakala contract, while the remaining portion to an extent of not more than 49% will be utilised as commodity murabaha.

10. LONG TERM FINANCING (Continued)

Subordinated financing obtained by a subsidiary

During 2015, ATPB obtained US$ 225 million subordinated financing with an annual profit rate of 10.5% for a period of 10 years. Further included in Subordinated financing US$ 200 million obtained by ATPB during 2013 with an annual profit rate of 7.75%, for a period of ten years. These subordinated financing are obtained in US$ and are considered part of Tier II capital in the capital adequacy calculation of ATPB as per the banking regulations in the Republic of Turkey.

11. OTHER LIABILITIES

	2017 US$ '000	2016 US$ '000
Payables	301,293	299,433
Cash margins	393,240	222,008
Managers' cheques	92,046	103,969
Other provisions (note 22) *	8,731	11,091
Current taxation **	73,978	68,055
Deferred taxation **	3,256	12,933
Accrued expenses	89,212	71,303
Charity fund	18,805	10,658
Others	55,422	57,017
	1,035,983	856,467

* Other provisions mainly comprise of general provisions and specific provisions on commitment and contingent items.

** In view of operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits together with details of effective tax rates.

12. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

	2017 US$ '000	2016 US$ '000
Equity of investment accountholders *	13,680,020	13,081,209
Profit equalisation reserve (note 12.1)	6,006	6,091
Investment risk reserve (note 12.2)	187,149	176,583
Cumulative changes in fair value attributable to equity of investment accountholders - net (note 12.3)	8,934	12,911
	13,882,109	13,276,794

** Medium term Sukuk*

This includes unsecured, sub-ordinated and privately placed unrestricted mudaraba sukuk amounting to US$ 24,478 thousand (2016: US$ 13,923 thousand) issued by Al Baraka Bank (Pakistan) Limited (ABPL) during 2014. The issuance of sukuk is intended to comply with regulatory requirements related to capital adequacy ratio of ABPL. The tenure of the sukuk is seven years maturing in 2021. The principal repayment, started after six months of the drawdown date and is being made semi-annually on a straight line basis.

12.1 Profit equalisation reserve

The following shows the movement in profit equalisation reserve:

	2017 US$ '000	2016 US$ '000
Balance at 1 January	6,091	10,037
Amount apportioned from income allocable to equity of investment accountholders	910	297
Amount used during the year	(976)	(3,580)
Foreign exchange translations	(19)	(663)
Balance at 31 December	6,006	6,091

12. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (Continued)

12.2 Investment risk reserve

The following shows the movement in investment risk reserve:

	2017 US$ '000	2016 US$ '000
Balance at 1 January	**176,583**	179,238
Amount appropriated to provision (note 22)	**(8,069)**	7,324
Amount apportioned from income allocable to equity of investment accountholders	**21,895**	1,057
Foreign exchange translations	**(3,260)**	(11,036)
Balance at 31 December	**187,149**	176,583

12.3 Movement in cumulative changes in fair value attributable to equity of investment accountholders - net

	2017 US$ '000	2016 US$ '000
Balance at 1 January	**12,911**	12,240
Change in fair values during the year	**(3,480)**	3,840
Realised gain transferred to consolidated statement of income	**(48)**	(3,210)
Deferred taxation effect	**1,235**	(221)
Transfer to shareholders equity	**(1,684)**	262
	8,934	12,911
Attributable to investment in real estate	**8,695**	11,256
Attributable to equity-type instruments at fair value through equity	**239**	1,655
	8,934	12,911

13. OWNERS' EQUITY

	2017 US$ '000	2016 US$ '000
Share capital		
Authorised: 1,500,000,000 (2015: 1,500,000,000) ordinary shares of US$ 1 each	**1,500,000**	1,500,000

	2017 US$ '000	2016 US$ '000
Issued and fully paid up:		
At beginning of the year		
1,149,218,451 (2016: 1,115,746,069) shares of US$1 each	**1,149,218**	1,115,746
Issued during the year		
57,460,923 bonus shares (2016: 33,472,382) of US$1 each	**57,461**	33,472
At end of the year		
1,206,679,374 (2016: 1,149,218,451) shares of US$1 each	**1,206,679**	1,149,218

Proposed appropriations

At the Annual General Meeting held on 20 March 2017 (2016: 20 March 2016), the shareholders of the Group resolved to distribute US$11,396 thousand (2016: US$22,315 thousand) as cash dividends and US$57,461 thousand (2016: US$33,472 thousand) as bonus shares.

13. OWNERS' EQUITY (Continued)

Treasury shares

	Number of shares ('000)	2017 US$ '000	2016 US$ '000
At 1 January	**9,588**	**9,588**	8,464
Purchase of treasury shares	**1,346**	**1,346**	1,714
Sale of treasury shares	**(1,384)**	**(1,384)**	(590)
At 31 December	**9,550**	**9,550**	9,588

The market value of the treasury shares is US$ 3,581 thousand (2016: US$ 4,698 thousand) and it represents 0.8% (2016: 0.8%) of the outstanding shares.

Additional information on shareholding pattern

i) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

At 31 December 2017

Names	**Nationality/ Incorporation**	**Number of shares**	**% holding**
Saleh Abdullah Kamel	Saudi	**363,336,867**	**30.11%**
Dallah AlBaraka Holding Company E.C.	Bahrain	**297,276,402**	**24.64%**
Altawfeek Company For Investment Funds	Cayman Island	**233,177,723**	**19.32%**
Abdulla AbdulAziz AlRajihi	Saudi	**84,770,095**	**7.03%**

At 31 December 2016

Names	Nationality/ Incorporation	Number of shares	% holding
Saleh Abdullah Kamel	Saudi	346,035,112	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	283,120,383	24.64%
Altawfeek Company For Investment Funds	Cayman Island	222,074,022	19.32%
Abdulla AbdulAziz AlRajihi	Saudi	80,733,424	7.03%

ii) The Bank has only one class of shares and the holders of these shares have equal voting rights.

iii) Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

At 31 December 2017

Categories:	**Number of shares**	**Number of shareholders**	**% of total outstanding shares**
Less than 1%	**120,600,222**	**1,088**	**9.99%**
1% up to less than 5%	**107,518,065**	**4**	**8.91%**
5% up to less than 10%	**84,770,095**	**1**	**7.03%**
10% up to less than 20%	**233,177,723**	**1**	**19.32%**
20% up to less than 50%	**660,613,269**	**2**	**54.75%**
	1,206,679,374	**1,096**	**100.00%**

At 31 December 2016

Categories:	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	86,408,191	1,092	7.52%
1% up to less than 5%	130,847,319	6	11.38%
5% up to less than 10%	80,733,424	1	7.03%
10% up to less than 20%	222,074,022	1	19.32%
20% up to less than 50%	629,155,495	2	54.75%
	1,149,218,451	1,102	100.00%

13. OWNERS' EQUITY (Continued)

a. Share premium/Equity transaction cost

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue costs, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law (BCCL).

Equity transaction cost, represent costs incurred by the Bank that are directly related to raising capital and have been incurred in cash.

b. Statutory reserve

In accordance with the BCCL and the Bank's articles of association, 10% of the parent's share of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law. During the year US$ 12,903 thousand (2016: US$ 15,155 thousand) was transferred to statutory reserve.

c. Cumulative changes in fair values

This represents the net unrealised fair value gains and losses relating to the equity of the parent on equity-type instruments at fair value through equity, investment in real estate and land occupied by the Group (classified as property and equipment).

d. Foreign currency translations

The foreign currency translations are used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

The following table summarises the subsidiary wise foreign currency translation reserve as at 31 December:

Subsidiary	Currency	2017 US$ '000	2016 US$ '000
Banque Al Baraka D'Algerie (BAA)	Algerian Dinar	**54,401**	50,617
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	**12,078**	7,890
Al Baraka Bank Egypt (ABE)	Egyptian Pound	**138,837**	144,651
Al Baraka Turk Participation Bank (ATPB)	Turkish Lira	**378,186**	350,455
Al Baraka Bank Limited (ABL)	South African Rand	**13,857**	17,279
Al Baraka Bank Sudan (ABS)	Sudanese Pound	**49,719**	36,901
Al Baraka Bank Tunis (ABT)	Tunisian Dinar	**25,859**	23,166
Al Baraka Bank Syria (ABBS)	Syrian Pound	**33,454**	35,760
BTI Bank	Moroccan Dirham	**(149)**	-
		706,242	666,719

e. Other reserves

Other reserves mainly consist of general banking risk reserves maintained by the subsidiaries in accordance with local regulations.

f. Zakah paid on behalf of shareholders

The General Assembly in its annual meeting conducted on 20 March 2017 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US$4,021 thousand as Zakah on behalf of the shareholders deducted from the Retained Earnings for the financial year of 2016. The Group has paid and distributed an amount of US$3,688 thousand to those who's entitled to receive Zakah as per Shari'a boundaries and as approved by the Unified Shari'a Board. The remaining amount of US$333 thousand has been allocated to be paid maximum by end of first quarter of 2018.

	2017 US$ '000	2016 US$ '000
Zakah to be paid on behalf of shareholders for the year	**4,021**	3,962
Uses of Zakah:		
Zakah for the poor and needy	**2,604**	1,650
Zakah for welfare	**-**	143
Zakah for new converts to Islam	**80**	177
Scholarships	**1,004**	1,100
Others	**-**	8
Total uses	**3,688**	3,078
Remaining Zakah to be paid	**333**	884

13. OWNERS' EQUITY (Continued)

g. Proposed Appropriations

	2017 US$ '000	2016 US$ '000
Cash dividend 2% (2016: 1%)	**24,134**	11,396
Bonus shares	**36,200**	57,461
	60,334	68,857

The above proposed appropriations exclude appropriations to the statutory reserve as mentioned above and will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The Bank proposed issuance of bonus shares from the retained earnings at three bonus shares for each 100 shares held (2016: one bonus share for each 20 shares held). This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The proposed appropriations for the year 2016 was approved at the Annual General Meeting on 20 March 2017 and was effected in 2017 following the approval.

h. Net movement in non-controlling interest

This mainly includes the effect of changes in capital of subsidiaries, buying (selling) by the non-controlling interest from (to) the Group.

14. PERPETUAL TIER 1 CAPITAL

On 31 May 2017, the Bank completed an issuance of US$ 400 million Additional Tier 1 Mudaraba Sukuk in compliance with CBB regulations; listed on Irish Stock Exchange. Profit shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Sukuk at an expected profit of 7.875% per annum, payable on semi-annual basis. These Sukuks are recognised under equity in the consolidated statement of financial position and the corresponding Profit payable on those Sukuk are accounted as appropriation of profits. Expenses relating to the issuance have been included in the retained earnings. As per the terms and conditions, the Sukuk holders will not have a right to claim the profit and such event of non-payment of profit will not be considered as event of default.

15. NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2017 US$ '000	2016 US$ '000
Receivables (note 15.1)	**1,035,429**	1,099,779
Mudaraba and Musharaka financing (note 15.2)	**210,776**	126,248
Investments (note 15.3)	**234,610**	293,096
Ijarah Muntahia Bittamleek (note 15.4)	**138,989**	135,999
Others	**652**	3,532
	1,620,456	1,658,654
Net income from jointly financed contracts and investments	1,258,663	1,336,569
Gross income from self financed contracts and investments	**361,793**	322,085
	1,620,456	1,658,654
Gross income from self financed contracts and investments	**361,793**	322,085
Profit paid on wakala financing	**(31,515)**	(36,586)
Net income from self financed contracts and investments	**330,278**	285,499

15.1 Receivables

	2017 US$ '000	2016 US$ '000
Sales (Murabaha) receivables	**1,025,789**	1,085,461
Salam receivables	**6,598**	9,980
Istisna'a receivables	**3,042**	4,338
	1,035,429	1,099,779

15. NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS (Continued)

15.2 Mudaraba and Musharaka financing

	2017 US$ '000	2016 US$ '000
Mudaraba financing	87,773	64,789
Musharaka financing	123,003	61,459
	210,776	126,248

15.3 Investments

	2017 US$ '000	2016 US$ '000
Equity-type instruments at fair value through equity	7,061	4,357
Debt-type instruments at amortised cost	224,776	275,095
Unrealised (loss) gain on equity and debt-type instruments at fair value through statement of income	(1,163)	152
(Loss) gain on sale of equity-type instruments at fair value through equity	(21)	3,585
Gain on sale of equity and debt-type instruments at fair value through statement of income	820	667
Rental income	1,496	1,679
Income from associates	1,537	2,059
Gain on sale of investment in real estate	104	5,502
	234,610	293,096

15.4 Ijarah Muntahia Bittamleek

	2017 US$ '000	2016 US$ '000
Income from Ijarah Muntahia Bittamleek	405,097	374,314
Depreciation on Ijarah Muntahia Bittamleek	(266,108)	(238,315)
	138,989	135,999

16. GROUP'S SHARE AS A MUDARIB

Group's share as a Mudarib is determined at the level of each subsidiary and is based on the terms and conditions of the related agreements.

17. OTHER FEES AND COMMISSION INCOME

	2017 US$ '000	2016 US$ '000
Banking fees and commissions	90,459	95,393
Letters of credit	25,189	30,623
Guarantees	34,209	41,597
Acceptances	8,037	9,224
	157,894	176,837

18. OTHER OPERATING INCOME

	2017 US$ '000	2016 US$ '000
Foreign exchange gain	24,191	64,055
Gain on sale of property and equipment	11,192	14,804
	35,383	78,859

19. PROFIT PAID ON LONG TERM FINANCING

	2017 US$ '000	2016 US$ '000
Murabaha financing	**15,637**	16,280
Subordinated financing obtained by a subsidiary	**47,888**	45,469
Wakala	**21,475**	29,621
	85,000	91,370

20. DEPRECIATION AND AMORTISATION

	2017 US$ '000	2016 US$ '000
Property and equipment depreciation (note 8)	**37,489**	39,228
Intangible assets amortisation (note 9 (a))	**9,909**	5,351
	47,398	44,579

21. OTHER OPERATING EXPENSES

	2017 US$ '000	2016 US$ '000
General and administration expenses	**103,251**	102,807
Professional and business expenses	**34,179**	29,777
Premises related expenses	**68,442**	64,552
	205,872	197,136

22. PROVISIONS AND IMPAIRMENT

2017	Sales (Murabaha) receivables US$ '000 (note 4.1)	Ijarah receivables US$ '000 (note 4.2)	Salam receivables US$ '000 (note 4.3)	Istisna'a receivables US$ '000 (note 4.4)	Mudaraba financing US$ '000 (note 5.1)	Musharaka financing US$ '000 (note 5.2)	Investments US$ '000 (note 6.2 & 6.3)	Other assets US$ '000 (note 9)	Other liabilities US$ '000 (note 11)	Total US$ '000
Provisions at 1 January	354,543	12,471	5,954	2,275	11,948	6,601	7,160	14,829	11,091	426,872
Charged during the year	150,521	3,798	1,355	200	103	3,460	2,317	1,677	1,666	165,097
Written back during the year	(24,391)	(3,442)	(1,048)	(929)	-	(694)	(305)	(666)	(1,974)	(33,449)
	126,130	356	307	(729)	103	2,766	2,012	1,011	(308)	131,648
	480,673	12,827	6,261	1,546	12,051	9,367	9,172	15,840	10,783	558,520
Written off during the year	(119,333)	-	-	-	-	-	-	-	(550)	(119,883)
Amount appropriated from investment risk reserve (note 12.2)	5,169	283	-	-	-	52	2,565	-	-	8,069
Foreign exchange translations/others - net	2,752	240	(386)	(156)	887	(290)	(41)	(645)	(1,502)	859
Provisions at 31 December	369,261	13,350	5,875	1,390	12,938	9,129	11,696	15,195	8,731	447,565

During the year, an impairment loss of US$159 thousand (2016: US$9,134 thousand) was charged against investments and goodwill.

22. PROVISIONS AND IMPAIRMENT (Continued)

2016	Sales (Murabaha) receivables US$ '000 (note 4.1)	Ijarah receivables US$ '000 (note 4.2)	Salam receivables US$ '000 (note 4.3)	Istisna'a receivables US$ '000 (note 4.4)	Mudaraba financing US$ '000 (note 5.1)	Musharaka financing US$ '000 (note 5.2)	Investments US$ '000 (note 6.2 & 6.3)	Other assets US$ '000 (note 9)	Other liabilities US$ '000 (note 11)	Total US$ '000
Provisions at 1 January	379,269	10,232	5,467	410	11,262	4,237	8,494	12,370	13,809	445,550
Charged during the year	113,131	3,455	1,453	1,192	18,388	795	1,040	4,756	1,480	145,690
Written back during the year	(22,518)	(3,157)	(747)	(300)	-	(2,195)	(1,302)	(1,636)	(815)	(32,670)
	90,613	298	706	892	18,388	(1,400)	(262)	3,120	665	113,020
	469,882	10,530	6,173	1,302	29,650	2,837	8,232	15,490	14,474	558,570
Written off during the year	(33,282)	(36)	(131)	-	(21,817)	(37)	(465)	(737)	(968)	(57,473)
Amount appropriated from investment risk reserve (note 12.2)	(7,472)	144	-	-	-	4	-	-	-	(7,324)
Foreign exchange translations/others - net	(74,585)	1,833	(88)	973	4,115	3,797	(607)	76	(2,415)	(66,901)
Provisions at 31 December	354,543	12,471	5,954	2,275	11,948	6,601	7,160	14,829	11,091	426,872

The provisions relate to the following geographical areas:

2017	**Sales (Murabaha) receivables US$ '000 (note 4.1)**	**Ijarah receivables US$ '000 (note 4.2)**	**Salam receivables US$ '000 (note 4.3)**	**Istisna'a receivables US$ '000 (note 4.4)**	**Mudaraba financing US$ '000 (note 5.1)**	**Musharaka financing US$ '000 (note 5.2)**	**Investments US$ '000 (note 6.2 & 6.3)**	**Other assets US$ '000 (note 9)**	**Other liabilities US$ '000 (note 11)**	**Total US$ '000**
Middle East	**157,954**	**2,996**	**-**	**-**	**12,938**	**535**	**8,940**	**6,362**	**7,520**	**197,245**
North Africa	**18,576**	**6,359**	**1,868**	**52**	**-**	**12**	**1,292**	**1,327**	**1,211**	**30,697**
Europe	**162,720**	**-**	**-**	**-**	**-**	**-**	**-**	**2,271**	**-**	**164,991**
Others	**30,011**	**3,995**	**4,007**	**1,338**	**-**	**8,582**	**1,464**	**5,235**	**-**	**54,632**
Total	**369,261**	**13,350**	**5,875**	**1,390**	**12,938**	**9,129**	**11,696**	**15,195**	**8,731**	**447,565**

2016										
Middle East	153,603	2,438	-	-	11,948	248	6,215	6,342	10,798	191,592
North Africa	17,434	6,265	1,493	79	-	6	490	972	293	27,032
Europe	148,934	-	-	-	-	-	-	2,104	-	151,038
Others	34,572	3,768	4,461	2,196	-	6,347	455	5,411	-	57,210
Total	354,543	12,471	5,954	2,275	11,948	6,601	7,160	14,829	11,091	426,872

The fair value of collateral the Group holds relating to non-performing facilities as at 31 December 2017 amounts to US$639.2 million (2016: US$ 554.1 million). The collateral consists of cash margin, securities and properties. The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

23. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

	2017	2016
Net income attributable to the equity shareholders of the parent for the year - *US$ '000*	**129,029**	151,545
Less: Profit distributed on perpetual tier 1 capital	**(15,750)**	-
Net income attributable to the shareholders equity	**113,279**	151,545
Number of shares outstanding at the beginning of the year (in thousands)	**1,206,679**	1,140,818
Treasury shares effect (in thousands)	**(10,194)**	(610)
Bonus shares effect during the year (in thousands)*	**-**	57,041
Weighted average number of shares outstanding at the end of the year (in thousands)	**1,196,485**	1,197,249
Earnings per share - US cents	**9.47**	12.66

*The weighted average number of shares of the previous year has been adjusted on account of the bonus share issue made in 2017 (note 13).

24. CASH AND CASH EQUIVALENTS

	2017 US$ '000	2016 US$ '000
Balances with central banks excluding mandatory reserve	**1,534,035**	1,662,465
Balances with other banks	**602,517**	585,491
Cash and cash in transit	**724,630**	604,002
	2,861,182	2,851,958

25. RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Group and Shari'a supervisory board members.

The income and expenses in respect of related parties were as follows:

	Associated companies US$ '000	Major shareholders US$ '000	Directors and key management personnel US$ '000	Other related parties US$ '000	2017 US$ '000	2016 US$ '000
Net income from jointly financed contracts and investments	1,940	-	61	-	**2,001**	2,091
Net income from self financed contracts and investments	-	2	-	-	**2**	764
Return on equity of investment accountholders	176	50	11	2	**239**	268
Other fees and commission income	487	-	-	-	**487**	418

Compensation of key management personnel of the Bank, included in consolidated statement of income, is as follows:

	2017 US$ '000	2016 US$ '000
Short term benefits	**8,814**	8,164
Long term benefits	**1,473**	1,398

Short term benefits includes basic salaries, bonuses, allowances and other benefits paid during the year and long term benefits includes indemnity, social insurance benefits and investment scheme.

Director's remuneration accrued for the year ended 31 December 2017 amounted to US$ 1.5 million (2016: US$ 1.5 million).

The balances with related parties at 31 December were as follows:

	Associated companies US$ '000	Major shareholders US$ '000	Directors and key management personnel US$ '000	Other related parties US$ '000	2017 US$ '000	2016 US$ '000
Assets:						
Receivables	2,006	-	609	-	**2,615**	2,768
Investments	37,848	-	-	-	**37,848**	63,555
Ijarah Muntahia Bittamleek	-	-	382	-	**382**	559
Other assets	-	1	586	-	**587**	1,881
Liabilities:						
Customer current and other accounts	4,260	4,833	1,186	73	**10,352**	9,076
Other liabilities	-	-	-	-	**-**	2
Equity of investment accountholders	17,677	2,058	734	68	**20,537**	25,071
Off-balance sheet equity of investment accountholders	17,267	9,100	7,059	-	**33,426**	29,114

All related party exposures are performing and are free of any provision for possible credit losses.

25. RELATED PARTY TRANSACTIONS (Continued)

Details of Directors' and Executive Management's direct and indirect interests in the Bank's shares as at the end of the year were:

Name of directors	Position	Nationality	2016 Number of shares	Transaction Number of shares	**2017* Number of shares**
Saleh Abdulla Kamel	Chairman	Saudi	629,155,495	-	**660,613,269**
Abdulla Ammar Saudi	Vice Chairman	Bahraini	616,136	-	**646,942**
Abdulla Saleh Kamel	Vice Chairman	Saudi	313,082	-	**328,736**
Mohydin Saleh Kamel	Board Member	Saudi	654,625	-	**687,356**
AbdulElah Sabbahi	Board Member	Saudi	208,877	-	**219,320**
Adnan Ahmed Yousif	Board Member (President & Chief Executive)	Bahraini	336	-	**352**
Abdulrahman Shehab	Executive Vice President, Head of Operations and Administration	Bahraini	125,976	100,000	**232,274**

* Includes the effect of the Bank's issuance of bonus shares at one bonus share for each 20 shares held as per the approval of the shareholders at the Annual General Meeting on 20 March 2017.

26. COMMITMENTS AND CONTINGENCIES

	2017 US$ '000	2016 US$ '000
Letters of credit	**853,547**	704,307
Guarantees	**2,343,883**	2,680,992
Acceptances	**76,755**	53,791
Undrawn commitments	**1,150,183**	834,915
Sharia'a compliant promise contracts	**300,365**	323,915
Others	**277**	321
	4,725,010	4,598,241

27. SEGMENTAL ANALYSIS

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by the Group's management and the Board of Directors.

For financial reporting purposes, the Group is divided into the following geographic segments:

- Middle East
- North Africa
- Europe
- Others

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in Note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

No business segment are presented as that is not applicable to the Group.

27. SEGMENTAL ANALYSIS (Continued)

Segment assets, liabilities and equity of investment accountholders were as follows:

	2017			2016		
Segment	Assets US$ '000	Liabilities US$ '000	IAH US$ '000	Assets US$ '000	Liabilities US$ '000	IAH US$ '000
Middle East	**11,154,872**	**2,976,028**	**6,827,712**	9,710,447	2,782,561	6,057,888
North Africa	**2,691,890**	**1,355,042**	**1,042,965**	2,419,901	1,171,716	974,704
Europe	**9,538,495**	**4,034,513**	**4,847,691**	9,304,781	3,546,164	5,103,850
Others	**2,067,954**	**694,858**	**1,163,741**	1,990,136	639,449	1,140,352
	25,453,211	**9,060,441**	**13,882,109**	23,425,265	8,139,890	13,276,794

Segment operating income, net operating income and net income were as follows:

	2017			2016		
Segment	Total operating income US$ '000	Net operating income US$ '000	Net income US$ '000	Total operating income US$ '000	Net operating income US$ '000	Net income US$ '000
Middle East	**370,546**	**175,270**	**101,964**	446,026	223,014	119,332
North Africa	**103,291**	**41,437**	**22,265**	103,411	48,527	34,413
Europe	**407,474**	**185,536**	**60,534**	425,986	203,709	90,022
Others	**117,379**	**28,130**	**22,156**	98,736	31,693	23,869
	998,690	**430,373**	**206,919**	1,074,159	506,943	267,636

28. RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The management risk committee and executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposures by setting limits approved by the Board of Directors. These risks and the processes to mitigate these risks have not significantly altered from the previous year.

The most important types of risk are liquidity risk, credit risk, concentration risk, market risk and other operational risk. Market risk includes profit rate risk, equity price risk and foreign exchange risk.

a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. Each of the Group's subsidiaries has a documented and implemented domestic and foreign currency liquidity policy appropriate to the nature and complexity of its business. The policy addresses the subsidiaries' goal of protecting financial strength even for stressful events.

The table next page summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its investment account holders and the availability of bank lines.

Notes to the Consolidated Financial Statements

At 31 December 2017

28. RISK MANAGEMENT (Continued)

a) Liquidity risk (Continued)

The maturity profile at 31 December 2017 was as follows:

	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$ '000	20 years and above US$ '000	Undated US$ '000	Total US$ '000
Assets											
Cash and balances with banks	4,526,154	11,283	26,786	1,500	260,469	9,199	-	-	-	594,694	5,430,085
Receivables	1,760,393	1,028,586	1,094,874	1,832,313	3,408,176	1,959,133	644,964	271,318	1,293	-	12,001,050
Mudaraba and Musharaka financing	1,293,318	17,945	9,318	44,780	369,236	399,121	211,589	32,347	-	-	2,377,654
Investments	780,464	258,370	84,935	301,480	337,693	363,669	304,625	143,385	-	313,713	2,888,334
Ijarah Muntahia Bittamleek	24,629	30,722	63,549	113,525	471,467	359,037	399,815	307,508	85,766	-	1,856,018
Property and equipment	-	-	-	-	-	-	-	-	-	430,192	430,192
Other assets	220,021	43,457	28,289	37,710	23,965	61,127	4,339	1,877	-	49,093	469,878
Total assets	8,604,979	1,390,363	1,307,751	2,331,308	4,871,006	3,151,286	1,565,332	756,435	87,059	1,387,692	25,453,211
Liabilities											
Customer current and other accounts	5,465,433	-	-	-	-	-	-	-	-	-	5,465,433
Due to banks	544,658	422,803	183,128	127,097	22,000	-	-	22,784	-	-	1,322,470
Long term financing	-	4,564	98	390,926	46,956	381,200	412,811	-	-	-	1,236,555
Other liabilities	771,932	106,551	82,139	36,533	15,321	11,941	206	11,360	-	-	1,035,983
Total liabilities	6,782,023	533,918	265,365	554,556	84,277	393,141	413,017	34,144	-	-	9,060,441
Equity of investment accountholders	6,071,194	1,342,695	1,019,310	1,475,506	1,351,345	2,383,841	95,329	142,889	-	-	13,882,109
Total liabilities and equity of investment accountholders	12,853,217	1,876,613	1,284,675	2,030,062	1,435,622	2,776,982	508,346	177,033	-	-	22,942,550
Net liquidity gap	(4,248,238)	(486,250)	23,076	301,246	3,435,384	374,304	1,056,986	579,402	87,059	1,387,692	2,510,661
Cumulative net liquidity gap	(4,248,238)	(4,734,488)	(4,711,412)	(4,410,166)	(974,782)	(600,478)	456,508	1,035,910	1,122,969	2,510,661	-
Off-balance sheet equity of investment accountholders	172,138	113,533	85,724	372,931	74,077	58,345	26,154	478	-	-	903,380

28. RISK MANAGEMENT (Continued)

a) Liquidity risk (Continued)

The maturity profile at 31 December 2016 was as follows:

	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$ '000	20 years and above US$ '000	Undated US$ '000	Total US$ '000
Assets											
Cash and balances with banks	3,909,408	-	24,107	10,000	174,568	7,303	-	-	-	948,032	5,073,418
Receivables	1,504,074	810,358	1,378,701	2,087,664	3,126,846	1,861,219	463,466	190,549	571	-	11,423,448
Mudaraba and Musharaka financing	691,754	15,944	11,995	29,133	217,576	334,008	241,125	40,861	-	-	1,582,396
Investments	833,342	242,353	238,977	224,864	384,115	261,045	131,311	42,864	-	270,260	2,629,131
Ijarah Muntahia Bittamleek	96,173	61,860	56,550	81,838	412,325	305,851	382,191	418,041	15,510	-	1,830,339
Property and equipment	-	-	-	-	-	-	-	-	-	417,295	417,295
Other assets	89,262	44,747	19,492	42,513	27,030	50,777	774	-	1,865	192,778	469,238
Total assets	7,124,013	1,175,262	1,729,822	2,476,012	4,342,460	2,820,203	1,218,867	692,315	17,946	1,828,365	23,425,265
Liabilities											
Customer current and other accounts	4,983,772	-	-	-	-	-	-	-	-	-	4,983,772
Due to banks	324,835	203,088	114,013	21,899	60,000	-	-	194,560	-	-	918,395
Long term financing	-	-	269,171	258,670	359,452	33,405	460,558	-	-	-	1,381,256
Other liabilities	296,977	83,044	64,699	57,579	22,444	26,147	205	305,372	-	-	856,467
Total liabilities	5,605,584	286,132	447,883	338,148	441,896	59,552	460,763	499,932	-	-	8,139,890
Equity of investment accountholders	5,330,813	1,480,775	1,110,258	1,494,765	1,378,054	2,249,865	84,222	148,042	-	-	13,276,794
Total liabilities and equity of investment accountholders	10,936,397	1,766,907	1,558,141	1,832,913	1,819,950	2,309,417	544,985	647,974	-	-	21,416,684
Net liquidity gap	(3,812,384)	(591,645)	171,681	643,099	2,522,510	510,786	673,882	44,341	17,946	1,828,365	2,008,581
Cumulative net liquidity gap	(3,812,384)	(4,404,029)	(4,232,348)	(3,589,249)	(1,066,739)	(555,953)	117,929	162,270	180,216	2,008,581	-
Off-balance sheet equity of investment accountholders	140,557	154,324	105,977	351,537	71,373	47,561	180	534	-	-	872,043

b) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of individuals who own the counterparty, by collateral in form of mortgage of the objects financed or other types of tangible security.

Type of credit risk

Financing contracts mainly comprise Sales (Murabaha) receivables, Salam receivables, Istisna'a receivables, Mudaraba financing, Musharaka financing and Ijarah Muntahia Bittamleek.

Sales (Murabaha) receivables

The Group finances these transactions through buying a commodity which represents the object of the Murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the murabeh over the agreed period. The transactions are secured at times by the object of the Murabaha (in case of real estate finance) and other times by a total collateral package securing all the facilities given to the client.

28. RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Salam receivables

Salam is a contract whereby the Group makes an immediate payment to a seller for the future delivery of a commodity. To protect itself from risk associated with the commodity the Group simultaneously enters into Parallel Salam contract whereby it sells the commodity for deferred delivery for immediate payment.

Istisna'a receivables

Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date.

Mudaraba financing

The Group enters into Mudaraba contracts by investing in funds managed primarily by other banks and financial institutions for a definite period of time.

Musharaka financing

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2017 US$ '000	2016 US$ '000
Balances with central banks	**4,102,938**	3,883,925
Balances with other banks	**602,517**	585,491
Receivables	**12,001,050**	11,423,448
Mudaraba and Musharaka financing	**2,377,654**	1,582,396
Investments	**2,888,334**	2,629,131
Other assets	**232,972**	240,119
Total	**22,205,465**	20,344,510
Commitments and contingencies	**4,725,010**	4,598,241
	26,930,475	24,942,751

Credit quality by type of islamic financing contracts

The table below shows the credit quality by type of islamic financing contracts, based on the Group's credit rating system as of:

	31 December 2017			
Type of Islamic Financing Contracts	**Neither past due nor non performing US$ '000**	**Past due but performing US$ '000**	**Non performing islamic financing contracts US$ '000**	**Total US$ '000**
Receivables	**11,100,608**	**622,324**	**667,994**	**12,390,926**
Mudaraba and Musharaka financing	**2,324,682**	**42,602**	**32,437**	**2,399,721**
Other assets	**235,009**	**3,070**	**10,088**	**248,167**
	13,660,299	**667,996**	**710,519**	**15,038,814**

28. RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Credit quality by type of islamic financing contracts (Continued)

	31 December 2016			
Type of Islamic Financing Contracts	Neither past due nor non performing US$ '000	Past due but performing US$ '000	Non performing islamic financing contracts US$ '000	Total US$ '000
Receivables	10,563,395	590,576	644,720	11,798,691
Mudaraba and Musharaka financing	1,542,585	25,855	32,505	1,600,945
Other assets	244,934	311	9,703	254,948
	12,350,914	616,742	686,928	13,654,584

Aging analysis of past due but performing Islamic financing contracts

The following table summarises the aging of past due but performing islamic financing contracts as of:

	31 December 2017			
Type of Islamic Financing Contracts	**Less than 30 days US$ '000**	**31 to 60 days US$ '000**	**61 to 90 days US$ '000**	**Total US$ '000**
Receivables	**327,326**	**172,809**	**122,189**	**622,324**
Mudaraba and Musharaka financing	**33,334**	**6,886**	**2,382**	**42,602**
Other assets	**3,029**	**5**	**36**	**3,070**
	363,689	**179,700**	**124,607**	**667,996**

	31 December 2016			
Type of Islamic Financing Contracts	Less than 30 days US$ '000	31 to 60 days US$ '000	61 to 90 days US$ '000	Total US$ '000
Receivables	235,857	160,144	194,575	590,576
Mudaraba and Musharaka financing	20,067	4,296	1,492	25,855
Other assets	309	1	1	311
	256,233	164,441	196,068	616,742

Credit Risk Mitigation

All the Group's subsidiaries, with exposures secured by real estate or other collateral carry out regular and periodic collateral verification and evaluation. This collateral verification and valuation is conducted by an independent qualified assessor or Collateral Analyst at the subsidiary. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group's subsidiaries allow cars, ships, aircraft, satellites, railcars, and fleets as collateral for a credit and investment product but do not accept perishable assets or any other assets with depreciable life of less than five years. Subsidiaries do not accept any assets as collateral if the assets are susceptible for obsolescence in case they are moved (e.g. furniture). Subsidiaries also ensure that these assets are insured in order to be accepted as collateral.

Third party cheques are accepted as collateral by the Group's subsidiaries. The Group's subsidiaries accept commercial papers as qualifying collateral if they are issued by banks or corporations of good credit standing. Since the maturity tenure of the commercial papers are generally short in nature, they are not accepted as collateral for long–term facilities (i.e. the financing tenure should not exceed the commercial papers maturity tenure). The subsidiaries do not accept vehicle or equipments, if new, as qualifying collateral for more than 80% of its market value. No vehicles or equipments, if used, are accepted as qualifying collateral for more than 50% of its insured value.

28. RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Credit Risk Mitigation (Continued)

Collaterals listed hereunder may attract capital relief from capital adequacy requirements as per the Central Bank of Bahrain's stipulations:

1) Hamish Jiddiyyah (Good faith deposit): Subsidiaries take this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honor his promise to perform, the subsidiary has recourse to the deposit.

2) Third party guarantee: The subsidiary should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable of investment grade rating.

3) Urbon: This is the amount that should be taken from a purchaser or lessee when a contract is established and it is the first line of defense for the subsidiary if the purchaser or lessee breaches the contract.

4) Underlying assets of the lease contract: The underlying asset must be of monetary value and the subsidiary must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any of any kind of encumbrance.

   Any excess amount resulting from the closure of the pledge by the subsidiary should be returned to the customer (pledger). The subsidiary should conduct at least annual evaluation of the pledged assets and keep adequate documentation of this evaluation.

5) Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.

6) Rated and unrated senior sukuk issued by first class financial institutions or by GCC sovereigns.

Credit Quality

Credit Risk Management at the Group will be based upon the creation and maintenance of a Credit Rating System (CRS) for the non-retail business. All the Group's units are to incorporate into their respective credit policies the CRS as the framework for credit management taking into consideration the methodology requirements of their local central banks, in this respect. The methodology for obligor (issuer) rating will reflect the specifics of the Group's main business and the geographical diversity of its operations. Ratings of countries, governments and financial institutions are carried out in centralised fashion at the Bank in Bahrain whereas rating of corporates is done at the subsidiaries level, unless the exposure to the corporate involves cross-border risk, in which case, that rating will also be at the Bank as part of the credit limit approval.

The CRS at the Bank has also been designed to be comparable to the rating system of major international rating agencies (Moody's, Standard & Poor's, Fitch) in respect of their foreign currency rating of countries, governments and financial institutions.

Accordingly, countries, governments and financial Institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating.

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to countries and single obligors. Single obligors, in turn are categorised as financial institutions, corporates, governments and retail. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security and other mitigants in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiaries internally to also rate facilities if they so wish).

Notes to the Consolidated Financial Statements

At 31 December 2017

28. RISK MANAGEMENT (Continued)

c) Concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The distribution of assets, liabilities and equity of investment accountholders items by economic sectors was as follows:

	2017			2016		
	Assets US$ '000	**Liabilities US$ '000**	**IAH US$ '000**	Assets US$ '000	Liabilities US$ '000	IAH US$ '000
Manufacturing	**4,272,944**	**219,771**	**202,767**	3,922,073	240,393	173,444
Mining and quarrying	**182,855**	**6,902**	**27,252**	169,465	1,498	27,218
Agriculture	**127,190**	**7,246**	**7,294**	149,542	11,922	9,644
Construction and real estate	**3,259,085**	**21,663**	**36,223**	3,211,074	22,924	39,222
Financial	**3,646,634**	**2,703,293**	**1,759,254**	2,377,485	2,388,226	1,672,165
Trade	**1,622,738**	**222,384**	**161,548**	1,451,128	193,639	153,379
Personal and consumer finance	**2,926,192**	**4,025,988**	**9,716,539**	2,620,213	3,705,500	9,486,208
Government	**6,177,308**	**78,584**	**164,559**	6,592,359	84,263	149,594
Other Services	**3,238,265**	**1,774,610**	**1,806,673**	2,931,926	1,491,525	1,565,920
	25,453,211	**9,060,441**	**13,882,109**	23,425,265	8,139,890	13,276,794

d) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates. Under Market Risk Policies currently implemented by management of the Group, have set certain limits on the level of risk that may be accepted. This is monitored by local management at the subsidiary level.

Profit rate risk

Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and on equity of investment accountholders. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits in line with the market rates.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The Group has total equity portfolio of US$ 367,595 thousand (2016: US$ 126,698 thousand) comprising of equity-type instruments at fair value through equity amounting to US$ 103,818 thousand (2016: US$ 107,225 thousand) and equity-type instruments at fair value through statement of income amounting to US$ 263,777 thousand (2016: US$ 19,473 thousand). Variation of 10% increase or decrease in the portfolio value will not have a significant impact on the Group's consolidated net income or owners' equity.

Notes to the Consolidated Financial Statements

At 31 December 2017

28. RISK MANAGEMENT (Continued)

d) Market risk (Continued)

Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Following is the Group's exposure to different currencies in equivalent US dollars:

	2017		
Currency	**Operational equivalent Long (Short) US$ '000**	**Strategic equivalent Long (Short) US$ '000**	**Total equivalent Long (Short) US$ '000**
Turkish Lira	**86,609**	**371,753**	**458,362**
Jordanian Dinar	**28,456**	**376,638**	**405,094**
Egyptian Pound	**1,211**	**108,894**	**110,105**
Sudanese Pound	**1,193**	**48,083**	**49,276**
Algerian Dinar	**(186)**	**112,093**	**111,907**
Lebanese Pound	**5,890**	**16,953**	**22,843**
Pound Sterling	**(4,110)**	**-**	**(4,110)**
Tunisian Dinar	**(855)**	**50,945**	**50,090**
Euro	**71,279**	**-**	**71,279**
South African Rand	**-**	**34,466**	**34,466**
Pakistani Rupees	**4,919**	**84,475**	**89,394**
Syrian Pound	**3,146**	**14,720**	**17,866**
Moroccan Dirham	**-**	**13,904**	**13,904**
Others	**78,435**	**-**	**78,435**

	2016		
Currency	Operational equivalent Long (Short) US$ '000	Strategic equivalent Long (Short) US$ '000	Total equivalent Long (Short) US$ '000
Turkish Lira	(9,102)	370,890	361,788
Jordanian Dinar	11,512	346,283	357,795
Egyptian Pound	(22,903)	76,503	53,600
Sudanese Pound	2,998	47,434	50,432
Algerian Dinar	(189)	113,815	113,626
Lebanese Pound	3,983	19,097	23,080
Pound Sterling	(3,143)	-	(3,143)
Tunisia Dinar	(982)	54,779	53,797
Euro	2,510	-	2,510
South African Rand	(567)	29,276	28,709
Pakistani Rupees	9,609	82,936	92,545
Syrian Pound	40,267	11,846	52,113
Moroccan Dirham	-	-	-
Others	139,238	-	139,238

The strategic currency risk represents the amount of equity of the subsidiaries.

28. RISK MANAGEMENT (Continued)

d) Market risk (Continued)

Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks adopted by Derivatives Policy Group in this respect which calculates the effect on assets and income of the Group as a result of appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is done using various percentages based upon the judgment of the management of the Group.

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity.

At 31 December 2017

Currency	Particular	Exposures in US$ '000	Maximum expected decrease %	Change in net income and owners' equity US$ '000	Maximum expected increase %	Change in net income and owners' equity US$ '000
Algerian Dinar	Net Income	27,450	-15%	(3,580)	5%	1,445
	Total owners' equity	200,526	-15%	(26,156)	5%	10,554
Egyptian Pound	Net Income	36,068	-20%	(6,011)	5%	1,898
	Total owners' equity	147,789	-20%	(24,632)	5%	7,778
Turkish Lira	Net Income	60,534	-20%	(10,089)	5%	3,186
	Total owners' equity	656,290	-20%	(109,382)	5%	34,542
Sudanese Pound	Net Income	20,965	-130%	(11,850)	5%	1,103
	Total owners' equity	63,490	-130%	(35,886)	5%	3,342
S.African Rand	Net Income	3,948	-15%	(515)	5%	208
	Total owners' equity	53,427	-15%	(6,969)	5%	2,812
Syrian Pound	Net Income	3,889	-20%	(648)	5%	205
	Total owners' equity	64,001	-20%	(10,667)	5%	3,368
Pakistani Rupees	Net Income	(2,757)	-10%	251	5%	(145)
	Total owners' equity	92,439	-10%	(8,404)	5%	4,865
Tunisian Dinar	Net Income	(1,441)	-10%	131	5%	(76)
	Total owners' equity	64,981	-10%	(5,907)	5%	3,420
Moroccan Dirham	Net Income	(3,744)	-20%	624	5%	(197)
	Total owners' equity	28,375	-20%	(4,729)	5%	1,493

28. RISK MANAGEMENT (Continued)

d) Market risk (Continued)

At 31 December 2016

Currency	Particular	Exposures in US$ '000	Maximum expected decrease %	Change in net income and owners' equity US$ '000	Maximum expected increase %	Change in net income and owners' equity US$ '000
Algerian Dinar	Net Income	33,231	-15%	(4,334)	5%	1,749
	Total owners' equity	203,609	-15%	(26,558)	5%	10,716
Egyptian Pound	Net Income	50,860	-20%	(8,477)	5%	2,677
	Total owners' equity	103,829	-20%	(17,305)	5%	5,465
Turkish Lira	Net Income	90,022	-20%	(15,004)	5%	4,738
	Total owners' equity	654,767	-20%	(109,128)	5%	34,461
Sudanese Pound	Net Income	21,652	-20%	(3,609)	5%	1,140
	Total owners' equity	62,633	-20%	(10,439)	5%	3,296
S.African Rand	Net Income	2,803	-15%	(366)	5%	148
	Total owners' equity	45,381	-15%	(5,919)	5%	2,388
Syrian Pound	Net Income	8,467	-20%	(1,411)	5%	446
	Total owners' equity	51,503	-20%	(8,584)	5%	2,711
Pakistani Rupees	Net Income	(588)	-10%	53	5%	(31)
	Total owners' equity	102,321	-10%	(9,302)	5%	5,385
Tunisian Dinar	Net Income	1,183	-10%	(108)	5%	62
	Total owners' equity	69,872	-10%	(6,352)	5%	3,677

e) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Operational Risk Management Framework

The Group guidelines have the following sections: (1) Operational Risk Appetite, (2) Operational Risk Management – Structure and Rules, (3) Risk and Control Assessment, (4) Internal Audit, (5) Operational Risk and Basel II and (6) Operational Risk Capital Requirement.

The Group's Operational Risk Appetite is defined as the level of risk which the Group chooses to accept in its identified risk categories. Operational risk appetite is expressed in terms of both impact (direct loss) and the probability of occurrence.

The Operational Risk framework is subject to periodic Internal Audit.

The Group categorizes operational risk loss events into the following categories:

Infrastructure Risks

Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group and the subsidiaries might be disrupted and severe operational risks could occur.

In order to hedge the subsidiaries from the infrastructure risk as outlined above, every subsidiary must take all the necessary measures indicated in the Business Continuity Plan and/or Disaster Recovery Plan (BCP and DRP) to cater for these risks.

Information Technology Risks

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access by third parties or employees, etc.

Staff risk

The main risks that arises from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established Group Human Resources Policies and Code of Conduct which entails constructive ways in dealing with mistakes and frauds. The Group has also established approval control steps in business processes as well as creating separate internal control processes. Further, the Group has established measures of organizational structure in terms of segregation of duties as well as diverse training measures to reduce human errors and frauds, etc.

28. RISK MANAGEMENT (Continued)

e) Operational Risk (Continued)

Business risk

This risk may take on the following forms:

1. Processes without clear definitions, for example, when insufficient time was spent on documenting or updating the already documented processes.
2. Outdated process descriptions in cases where "reality" already strongly differs from the guidelines laid down in the past.
3. The extreme case of a completely missing documentation. To hedge this risk, the Group adopts sound documentation policies of business processes as it is a basic requirement for a well functioning process organization. The process description are up to date and clear; furthermore, it is accessible to all employees.

f) Corporate governance

Board of Directors

The Board of Directors is responsible for approving the Group's overall business strategy, monitoring its operations and taking critical business decisions. In line with international leading practices, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of four independent non-executive directors as defined in the Rule Book of the CBB.

The Bank is administered by a Board of Directors consisting of not less than five and not more than fifteen members. However, subject to the provisions of the law, the shareholders at an Ordinary General Meeting may determine that the number of directors shall exceed fifteen in certain circumstances. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months by resolution of the Bahrain Minister of Industry and Commerce.

There are currently thirteen Directors on the Board, who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgment. Other than the President and Chief Executive, all Directors are non-executive. The posts of Chairman and President and Chief Executive are held by different Directors and each has separate, clearly defined responsibilities.

The Board of Directors meets regularly (usually four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of executive management. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. All Directors have access to the advice and services of the secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations, is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

Quoted equity type instruments are investments which are fair valued using quoted prices in active markets for identical instruments and unquoted equity type instruments are investments that are fair valued using directly or indirectly observable inputs.

The Group's investments in sukuk held at amortised cost have fair values amounting to US$2,289 million (2016: US$ 2,275 million).

Also included under investments are unquoted equity-type instruments at fair value through equity amounting to US$50,556 thousand (2016: US$ 45,169 thousand) which are carried at cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the consolidated financial statements.

30. EARNINGS PROHIBITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US$ 12 million (2016: US$ 8 million). This amount has been taken to charity.

Additional Public Disclosures and Regulatory Capital Disclosures

At 31 December 2017

(UNAUDITED)

Additional Public Disclosures

At 31 December 2017

1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The Group's capital structure is primarily made of its paid-up capital, including the share premium and reserves. From regulation's perspective, the significant amount of the Group's capital are in Tier I as defined by the CBB, i.e., most of the consolidated capital are of permanent nature.

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. To calculate its capital adequacy, the Group follows the accepted approaches approved by the CBB Rulebook. The Group consolidates all subsidiaries for Capital Adequacy Ratio (CAR) calculation. The Group strives to sustain reasonably higher capital cushion that strikes the balance between its business conduct and the regulatory requirements stipulated in the CBB capital adequacy requirements as a minimum accepted level of capital adequacy.

Table – 1. Capital Structure (PD-1.3.12 & 1.3.14)

The following table summarises the eligible capital as of:

	31 December 2017		
	CET 1 US$ '000	AT1 US$ '000	T2 US$ '000
Tier 1 Capital			
Common Equity Tier 1 (CET1)			
Issued and fully paid up ordinary shares	1,206,679	-	-
Less: Treasury Shares	9,550	-	-
Legal / statutory reserves	152,641	-	-
Share premium	18,644	-	-
Retained earnings	461,918	-	-
Current net income	130,192	-	-
Unrealized gains and losses on available for sale financial instruments	(509)	-	-
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(706,239)	-	-
All other reserves	46,639	-	-
Unrealized gains and losses from fair valuing equities	(1,163)	-	-
Total CET1 capital before minority interest	1,299,252	-	-
Total minority interest in banking subsidiaries given recognition in CET1 capital	547,670	-	-
Total CET1 capital prior to regulatory adjustments	1,846,922	-	-
Less:			
Goodwill	61,340	-	-
Intangibles other than mortgage servicing rights	15,299	-	-
Deferred tax assets	19,731	-	-
Total Common Equity Tier 1 capital after the regulatory adjustments above (CET1 d)	1,750,552	-	-
Other Capital (AT1 & T2)			
Instruments issued by parent company		400,000	
Instruments issued by banking subsidiaries to third parties		40,498	57,459
Assets revaluation reserve - property, plant, and equipment		-	40,951
General financing loss provision		-	46,061
Total Available AT1 & T2 Capital		440,498	144,471
Net Available Capital after regulatory adjustments before Applying Haircut		440,498	144,471
Net Available Capital after Applying Haircut	1,750,552	440,498	144,471
Total Tier 1		2,191,050	
Total Capital			2,335,521

Additional Public Disclosures

At 31 December 2017

1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY (Continued)

Table – 2. Capital requirement for different type of risks (PD - 1.3.18, 1.3.19)

The following table summarises the capital requirements for credit risk, market risk and operational risk as of:

	31 December 2017	
	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Credit Risk	10,147,015	1,268,377
Market Risk	1,515,425	189,428
Operational Risk	1,920,251	240,031
Total risk weighted exposures	13,582,691	1,697,836
Investment risk reserve (30% only)	(56,145)	(7,018)
Profit equalization reserve (30% only)	(1,802)	(225)
	13,524,744	1,690,593

Table – 3. Capital requirement by type of Islamic financing contracts (PD-1.3.17)

The following table summarises the capital requirements by type of Islamic financing contracts as of:

	31 December 2017	
	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Islamic financing contracts		
Receivables	5,485,503	685,688
Mudaraba and Musharaka financing	1,016,773	127,097
Ijarah Muntahia Bittamleek	909,497	113,687
	7,411,773	926,472

Table – 4. Capital Adequacy Ratios (PD-1.3.20 (a))

The following are capital adequacy ratios for Total capital and Tier 1 capital as of:

	31 December 2017
Total capital ratio	17.27%
Tier 1 capital ratio	16.20%

1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY (Continued)

Table - 5. The Group's Subsidiaries Capital Adequacy Ratios (PD-1.3.20 (b))

The following are the Group's subsidiaries capital adequacy ratio prepared on the basis of the CBB requirements, which may differ form the local requirements of the countries in which the subsidiaries operate, as of:

	31 December 2017	
	Tier 1 capital ratio	Total capital ratio
Banque Al Baraka D'Algerie	21.81%	22.68%
Al Baraka Islamic Bank *	9.59%	11.59%
Al Baraka Bank Tunis	20.44%	20.71%
Al Baraka Bank Egypt	17.90%	18.88%
Al Baraka Bank Lebanon	11.37%	11.37%
Jordan Islamic Bank	27.59%	27.59%
Al Baraka Turk Participation Bank	9.82%	11.82%
Al Baraka Bank Limited	23.20%	23.94%
Al Baraka Bank Sudan	14.67%	16.79%
Al Baraka Bank Syria	17.78%	17.78%
BTI Bank	452.10%	452.10%

* These ratios represents the consolidated ratios and Al Baraka Pakistan has tier 1 capital ratio of 16.18% and total capital ratio of 21.85%.

Legal restrictions on capital and income mobility (PD-1.3.6 (c))

There are no major restrictions in distributing profits by the subsidiaries to the Bank. Such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure, a prior written approval has to be obtained from the CBB for increasing investments in subsidiaries.

Table – 6. Distribution of ownership of shares by nationality (PD-1.3.10(i))

The following table summarises the distribution of ownership of shares by nationality/ incorporation as of:

	31 December 2017 % holding
Nationality/ Incorporation	
Bahraini	27.26
Saudi	41.78
Cayman Islands	19.32
Emirati	6.93
Others	4.71

2. RISK MANAGEMENT

The Group's risk management strategies have been effectively implemented and the objectives outlined at the beginning of year 2017 across subsidiaries were successfully achieved. The Group is striving to bolster and instil the best practices of risk management in subsidiaries' risk management functions for the next reporting period by ensuring prudent implementation of risk management policies which entails risk identification, limit controls, monitoring and reporting.

The Group's risk management has the following objectives:

a. Unified Group-wide risk management to enable the Group to produce risk adjusted return on capital.
b. Creation of professional risk management culture throughout the Group with prudent, disciplined approach to risk taking based on comprehensive Group-wide policies, processes and limits.
c. Professionally qualified staff and ongoing credit training.
d. Investing in technology and systems for best practice risk management.
e. Throughout the Group, strict segregation of duties and reporting lines between personnel transacting business and personnel processing that business.
f. Strict compliance with all Shari'a and legal requirements and regulatory directives.
g. Maintaining clear, well documented policies via Group Risk Management Manual and also Risk Management Manuals by each of the Group's subsidiaries which incorporate the uniform policies and procedures of the Group in addition to the local requirements.

2. RISK MANAGEMENT (Continued)

a) Liquidity risk

The liquidity management policy at a minimum includes the following:

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.

b. Establish approval processes to ensure adherence to liquidity risk management processes.

c. Require periodic calculations to determine the extent to which the subsidiary is funding long-term assets with short-term liabilities.

d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.

e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the Group's subsidiaries manage their assets and liquidity profile to mitigate the risk; and

ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the Group's subsidiaries conduct an impact analysis on its dependency on any such concentrations.

f. Periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.

g. Review of alternate funding sources including stand-by facilities and lines of credit.

h. Establish a framework for the composition of assets.

i. Assess the acceptable mismatch in combination with currency commitments. The Group's subsidiaries undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Table – 7. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios as of:

	31 December 2017
Short term assets to short term liabilities	76%
Liquid assets to total assets	25%

b) Credit risk

General credit policies and guiding principles

The following principles summarise the Group's financing and investing policies and form the framework of all financing decisions:

a) Financing will be extended when the Group can confidently expect that it will be repaid by the customer as agreed. This necessitates a thorough knowledge of the customer and clear understanding of the risks underlying the credit requests.

b) Financing should be extended where there are at least two clear sources of repayments.

c) It is generally preferred that the repayments are from cash generated by the customers' productive and ongoing income or activities.

d) Amounts, profits/other charges and terms under the prevailing market conditions for any proposed financing are to be consistent with the perceived quality of the risk being undertaken.

e) Financing should generally be extended where the Group's seniority as creditors is pari passu or better than any other financing.

f) Financing should be structured appropriately considering the purpose of the credit and the source of repayment.

g) Financing needs to be assessed on a stand alone basis as well as on portfolio basis to assess its impact on the total financing portfolio.

h) Compliance with all applicable local statutory and regulatory directives guidelines should be ensured in all cases.

i) Propriety and ethical standards should be taken into account in all financing decisions.

Additional Public Disclosures

At 31 December 2017

2. RISK MANAGEMENT (Continued)

Table - 8. Gross funded and unfunded exposure (PD-1.3.23(a))

The Group's assets are funded by equity of investment accountholders (IAH) as well as the Group's own capital and current accounts (Self). The percentage of funding varies for each of the Group's subsidiary based on market conditions and applicable rules and regulations. However, at the Group level the percentage of funding of self financed represent 45% and of IAH represent 55%.

The following table summarises the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposure as of:

	31 December 2017				
	Self financed		Financed by IAH		Total
	Total gross credit exposure US$ '000	*Average gross credit exposure over the year US$ '000	Total gross credit exposure US$ '000	*Average gross credit exposure over the year US$ '000	Total self financed and financed by IAH US$ '000
Funded Exposure					
Receivables	3,262,635	3,098,369	8,738,415	8,767,495	12,001,050
Mudaraba and Musharaka financing	1,139,715	1,039,592	1,237,939	922,928	2,377,654
Investments	1,652,902	1,714,866	1,235,432	1,253,572	2,888,334
Ijarah Muntahia Bittamleek	673,119	641,599	1,182,899	1,217,545	1,856,018
Other assets	115,648	133,439	117,324	114,479	232,972
Unfunded Exposure					
Commitments and contingencies	4,725,010	4,516,751	-	-	4,725,010
	11,569,029		12,512,009		24,081,038

*Average Balances are computed based on quarter-end balances.

Table - 9. Geographic distribution of the gross funded exposure (PD-1.3.23(b))

The following table summarises the geographic distribution of gross funded exposure as of 31 December 2017, broken down into significant areas by major types of credit exposure:

	Self financed					Financed by IAH					IAH & Self financed
	Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000	Total US$ '000	Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000	Total US$ '000	Total US$ '000
Receivables	516,574	516,449	1,987,598	242,014	3,262,635	3,813,554	376,649	4,211,590	336,622	8,738,415	12,001,050
Mudaraba and Musharaka financing	632,060	45,290	278,459	183,906	1,139,715	733,746	42,264	-	461,929	1,237,939	2,377,654
Investments	567,989	65,671	776,541	242,701	1,652,902	1,120,585	48,982	-	65,865	1,235,432	2,888,334
Ijarah Muntahia Bittamleek	140,342	339,565	184,382	8,830	673,119	940,928	216,862	10,613	14,496	1,182,899	1,856,018
Other Assets	55,904	10,715	4,971	44,058	115,648	57,431	6,820	4,972	48,101	117,324	232,972
	1,912,869	977,690	3,231,951	721,509	6,844,019	6,666,244	691,577	4,227,175	927,013	12,512,009	19,356,028

2. RISK MANAGEMENT (Continued)

b) Credit risk (continued)

Table - 10. Exposure by counterparty type (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposure by counterparty type, broken down by major types of credit exposures as of 31 December 2017:

	Funded Exposures										Unfunded Exposures		Funded and Unfunded Exposures	
	Receivables		Mudaraba and Musharaka financing		Investments		Ijarah Muntahia Bittamleek		Other Assets		Commitments and contingencies		Total	
	Self	IAH	Self	IAH	Self	IAH	Self	IAH	Self	IAH	Self	IAH	Self	IAH
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Claims on sovereigns	193,200	787,218	52,615	504,868	996,430	899,029	26,291	-	-	-	10,240	-	1,278,776	2,191,115
Claims on International Organizations	-	-	-	-	176	1,468	-	-	-	-	-	-	176	1,468
Claims on MDBs	2,034	10,958	-	-	-	-	-	-	-	-	-	-	2,034	10,958
Claim on PSEs	-	-	11,514	6,097	-	-	-	-	-	-	-	-	11,514	6,097
Claims on banks	114,256	329,899	510,697	246,917	52,385	70,797	10,708	6,846	-	-	162,373	-	850,419	654,459
Claims on corporates	1,782,183	3,815,670	326,552	314,160	63,150	49,864	328,024	371,876	-	-	3,364,967	-	5,864,876	4,551,570
Claims on investment firms	-	-	402	-	-	-	-	-	-	-	-	-	402	-
Claims on retail	762,717	2,607,185	-	74,742	-	-	36,607	14,990	-	-	931,153	-	1,730,477	2,696,917
Mortgage	310,924	991,346	-	-	-	-	271,489	785,551	-	-	160,478	-	742,891	1,776,897
Past due receivables	97,321	196,139	2,178	12,854	-	-	-	3,636	-	-	5,852	-	105,351	212,629
Equity investment	-	-	-	-	476,974	40,845	-	-	-	-	-	-	476,974	40,845
Investment in funds	-	-	-	-	12,219	3,461	-	-	-	-	-	-	12,219	3,461
Specialized lending	-	-	235,757	78,301	-	-	-	-	-	-	89,947	-	325,704	78,301
Other assets	-	-	-	-	51,568	169,968	-	-	115,648	117,324	-	-	167,216	287,292
Total	3,262,635	8,738,415	1,139,715	1,237,939	1,652,902	1,235,432	673,119	1,182,899	115,648	117,324	4,725,010	-	11,569,029	12,512,009

Large Credit Exposure (PD - 1.3.23 (f))

The Group follows the CBB's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

There are no large exposures to individual counterparties where the exposure is in excess of the 15% individual obligor limit that qualifies for extra risk weight as per CBB's guidelines.

Past due, non-performing Islamic financing contracts and provisions (PD-1.3.22 (a))

Past due represents instalments that are not received on the contractual repayments date. The Group considers non-performing Islamic financing contracts as the contracts that are overdue for a period of 90 or more days. These exposures are placed on a non-accrual status with profit being recognised to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 or more days, the whole financing facility extended is considered as past due, not only overdue instalments/payments.

2. RISK MANAGEMENT (Continued)

b) Credit risk (continued)

Table -11. Credit quality of Islamic financing contracts by counterparty type (PD-1.3.23(h), 1.3.24 (b))

The following table summarises the total past due, non performing and neither past due nor non performing Islamic financing contracts and aging of non performing Islamic financing contracts disclosed by counterparty type as of 31 December 2017:

					Aging of non performing Islamic financing contracts		
	Total US$ '000	Neither past due nor non performing US$ '000	Past due but performing US$ '000	Non performing Islamic financing contracts US$ '000	90 days to 1 year US$ '000	1 year to 3 years US$ '000	Over 3 years US$ '000
Sovereign	962,795	955,610	7,185	-	-	-	-
Bank	1,622,055	1,619,965	936	1,154	-	-	1,154
Investment Firms	17,420	1,689	238	15,493	5,415	10,078	-
Corporates	8,534,638	7,438,671	563,938	532,029	223,655	244,675	63,699
Retail	3,901,906	3,644,364	95,699	161,843	37,652	46,151	78,040
	15,038,814	13,660,299	667,996	710,519	266,722	300,904	142,893

Table -12. Specific provisions by counterparty type (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the total specific provisions disclosed by counterparty type as of 31 December 2017:

	Specific provisions						
	Opening balance US$ '000	Charged during the year US$ '000	Write-back during the year US$ '000	Write-offs during the year US$ '000	Appropriation from IAH during the year US$ '000	Foreign exchange translations/ others - net US$ '000	Balance at the end of the year US$ '000
Bank	1,499	-	-	-	-	(853)	646
Investment Firms	22,244	436	(3,208)	(2,544)	-	397	17,325
Corporates	241,053	144,206	(18,873)	(113,018)	2,703	6,884	262,955
Retail	123,570	5,840	(7,491)	(3,760)	5,366	(2,947)	120,578
	388,366	150,482	(29,572)	(119,322)	8,069	3,481	401,504

Table -13. General provisions movement (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the movement of general provisions during the year ended:

	31 December 2017 US$ '000
Opening balance	38,507
Charged during the year	14,615
Write-back during the year	(3,875)
Write-offs during the year	(561)
Foreign exchange translations/ others	(2,625)
Balance at the end of the year	46,061

This represents collective provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

2. RISK MANAGEMENT (Continued)

b) Credit risk (continued)

Table - 14. Past due and non-performing Islamic financing contracts and provisions by geographic areas (PD-1.3.23(i), PD-1.3.24(c))

The following table summarises the total past due and non performing Islamic financing contracts and provisions disclosed by geographical area as of:

	31 December 2017		
	Past due and non performing Islamic financing contracts US$ '000	Specific provision US$ '000	General provision US$ '000
Middle East	275,862	175,425	21,820
North Africa	82,016	28,688	2,009
Europe	852,045	145,953	19,038
Others	168,592	51,438	3,194
	1,378,515	401,504	46,061

Table - 15. Renegotiated Islamic financing contracts (PD-1.3.23(j))

	31 December 2017 US$ '000
Renegotiated Islamic financing contracts	461,874

There is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings. In addition, the magnitude of the restructuring activities is immaterial. These facilities has been renegotiated mainly to enter into new contracts with different tenor, profit or enhance the collaterals.

Others (PD-1.3.23(k), (l), PD-1.3.25(b) & (c))

The Group has no significant obligations with respect to recourse transaction.

The Group has not imposed any material penalties on customers for defaults.

The Group does not make use of eligible collaterals and guarantees in its credit risk analysis.

Table - 16. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of:

	31 December 2017 US$ '000
Gross positive fair value of contracts	19,123,056
Netting Benefits	-
Netted Current Credit Exposure	19,123,056
Collateral held:	
Cash	626,334
Others	5,919,248
Real Estate	14,217,480
	20,763,062

The utilisation of the collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

c) Market risk

Market risk includes profit rate risk, displaced commercial risk, equity price risk and foreign exchange rate risk. The management of the Group have set limits on the level of risk that may be accepted. This is monitored by the local management at the subsidiary level.

2. RISK MANAGEMENT (Continued)

c) Market risk (continued)

Table – 17. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2017	
	Equity position risk US$ '000	Foreign exchange risk US$ '000
Risk weighted exposure (RWE)	-	1,515,425
Capital requirements (12.5%)	-	189,428
Maximum value of RWE	-	1,515,425
Minimum value of RWE	-	1,438,175

Profit rate risk

Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and IAH. The profit distribution to IAH is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

Displaced Commercial Risk

The Group is exposed to displaced commercial risk in the event of having IAH profit rates that are lower than market rates. The Group has partially mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the individual subsidiary level.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

Equity-type instruments at fair value through equity and investments in real estate are kept for capital gain purposes.

If financial instruments qualify to be included in the trading book, these must not exceed 25% of the total subsidiary's assets portfolio. For equity securities, the subsidiaries are required to observe the sectoral concentration limits outlined by the Group and/or their local requirement in this respect. Since trading securities in the trading book would be under marked-to-market requirement, the Risk Manager at the subsidiary level should immediately bring to the Credit and Risk Management at the Group as well as the subsidiary's asset/liability committee any volatility of position's value that is 15% or higher than the subsidiary's eligible capital to decide upon the appropriate course of action.

Table – 18. Investments in Banking Book (PD-1.3.31 (b) (c) & (f))

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2017:

	Total gross exposure US$ '000	Average gross exposure over the year US$ '000	Publicly held US$ '000	Privately held US$ '000	Capital requirement US$ '000
Sukuk and similar items	2,257,871	2,332,145	1,300,693	957,178	39,636
Equity Investment	395,117	340,033	321,540	73,577	52,708
Managed funds	24,189	49,873	11,910	12,279	1,960
	2,677,177	2,722,051	1,634,143	1,043,034	94,304

2. RISK MANAGEMENT (Continued)

c) Market risk (continued)

Table – 19. Equity gains or losses in banking book (PD-1.3.31 (d) and (e))

The following table summarises the cumulative realised and unrealised gains or losses during the year ended:

	31 December 2017 US$ '000
Cumulative realised gains arising from sales or liquidations in the reporting year	820
Total unrealized losses recognised in the consolidated statement of financial positions but not through consolidated statement of income	(21)

Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

d) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Table - 20. Operational risk exposure (PD-1.3.30 (a), (b) & (c))

The following table summarises the amount of exposure subject to basic indicator approach of operational risk and related capital requirements:

	Gross income		
	2017 US$ '000	2016 US$ '000	2015 US$ '000
Total Gross Income	998,690	1,074,158	999,553
			2017
Indicators of operational risk			
Average Gross income (US$ '000)			1,024,134
Multiplier			12.5
			12,801,671
Eligible Portion for the purpose of the calculation			15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)			1,920,251

The Group has no material legal contingencies including pending legal action.

The Group guidelines have the following sections: (1) Operational Risk Appetite, (2) Operational Risk Management – Structure and Rules (3) Risk and Control Assessment (4) Internal Audit (5) Operational Risk and Basel II (6) Operational Risk Capital Requirement.

The Group's Operational Risk Appetite is defined as the level of risk which the Group chooses to accept in its identified risk categories. Operational risk appetite is expressed in terms of both impact (direct loss) and the probability of occurrence.

The Group's policy also lays out the Operational Risk Management structure and the roles of all staff associated with operational risk. The major functional roles are defined for:

- Risk Management Committee
- Head of Credit and Risk Management
- Head of Operational, Liquidity and Market Risk
- Various departments

The Risk Control Self Assessment exercise is viewed as an important part of the Group's Operational Risk Framework. It is proposed to be conducted every year by the Risk Management Department in coordination with the Internal Audit Department. In addition, the assessment shall also be based on the severity of the residual risks identified through Internal Audit reviews.

The Key processes identified in a Risk Control Self Assessment are:

- Risk and Control Identification Process
- Measurement of Operational Risk Exposures
- Identifying Unacceptable Risk Exposures
- Risk Action Plans.

The Operational Risk framework will be subject to periodic internal audit.

Additional Public Disclosures

At 31 December 2017

3. CORPORATE GOVERNANCE

Code of business conduct and ethics for members of the board of directors

Purpose:

The primary objectives of the following Code of Business Conduct and Ethics (the "Code") is to enable each Director to focus on areas of ethical risks, to help them recognize and deal with ethical issues, to provide mechanisms for reporting unethical conduct, and to foster a culture of honesty and accountability within the Group.

Conflict of interest:

Each Director must avoid any situation which may give rise to a conflict between their interests and those of the Group. Any situation which either will or may involve, a conflict of interest should be disclosed promptly to the Board of Directors in writing in advance of the meeting or verbally in the meeting itself. The concerned Director shall abstain from any discussion or decision on the matter of question. A conflict of interest can occur when a Director's personal interest is adverse to, or appears to be, adverse to the interests of the Group. Conflicts of interest also arise when a Director, or a member of their immediate family, receives an improper personal benefit as a result of their position as a Director of the Group. Common conflicts which Directors must endeavor to avoid include, but are not limited to, the following:

1 Engagement in any conduct or activity which may conflict with the best interests of the Group, or which may disrupt or impair Group's standing with any person or entity with whom or which the Group has to proposes to enter into a business or contractual relationship.

2 Acceptance of compensation (in any form) for services performed in relation to the Group from any source other than from the Group.

3 Acceptance by them or any member of their family of gifts from persons or entities who or which deal with the Group where acceptance of such gifts could generate a sense of obligation and thereby create a potential conflict of interest.

4 Utilization of the Group's assets, employees or information for personal use without obtaining the prior approval of the Board of Directors.

Confidentiality:

Confidential information includes all non-public information relating to the Group, whether in written or in oral form. Directors are under continuous obligation to maintain the confidentiality of information entrusted directly to them by the Group and any other confidential information about the Group which comes to them, from whatever source, in their capacity as a Director. Directors may disclose confidential information if such disclosures are mandated by the law.

Compliance with Rules, Laws and Regulation:

Directors shall, at all times, comply with all laws, rules and regulations applicable to the Group, including insider trading laws.

Remuneration

The Group incentivise its Board members, executives and senior management and its Shari'a Board members in accordance to the remuneration policies and procedures approved by the Board. This policy links the incentives to the performance appraisal. The Group's corporate governance policy details the performance appraisal for the Board members.

The following table summarises remuneration of the Group's Directors, Shari'a Committee members, President & Chief Executive, Deputy Chief Executive and the Department Heads at Group Headquarters during the year ended:

	31 December 2017 US$ '000
Directors remuneration	1,500
Executive Management	
Salary and other remuneration, including meeting allowance	6,835
Fees	475
Bonuses	1,231
Benefits-in-kind	1,746
	10,287
Shari'a Committee Members fee and remuneration	249,189
	260,976

Complaints

The Group has adopted a special media approach to ensure that all the Group's stakeholders are well channelled through to the management. The contracted special media watch detect any news or complaints related to the Group and bring them to the attention of the Group's executive management.

Additional Public Disclosures

At 31 December 2017

3. CORPORATE GOVERNANCE (Continued)

Financial Penalty

During the year a financial penalty of USD 3,183 (BD 1,200) was paid to the CBB on account of late submission by one working day of Large Exposures Report (form BR-19) pertaining to 31 December 2016.

Related party transactions

Related party transactions are governed by the Group corporate governance policy and individual subsidiaries' local rules and regulations. All related party transactions were conducted at arm's length.

External Auditors

The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2017 financial year. The AGM has approved the reappointment of the external auditor for the year 2017 on 20 March 2017 and the related regulatory approval were taken.

For the year 2017, annual audit and quarterly review services amounted to US$212,865, other attestation services amounted to US$103,451 and other non-audit services amounted to US$239,894.

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS

The Group is exposed to some of the price risk on assets funded by IAH. The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis.

The Group invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Group to exercise its responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijarah transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Those investment accounts are available for different type of customers and investors ranging from retail to corporate.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

a) Targeted returns;

b) Compliance with credit and Investment policy and overall business plan; and

c) Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

Under all the aforesaid arrangement the Group can commingle the IAH funds with its own funds (Self-Financed). Some of the assets right from inception is designated exclusively as Self Financed by the Group.

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, musharaka, mudaraba and ijarah. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib share". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity are not entitled to any income and might be subject to charges. The practice varies for each subsidiary based on the business model, local market practices and prudential requirements for each subsidiary.

The basis applied by the Group in arriving at the investment account holders share of income varies for each subsidiary based on the business model, local market practices and prudential requirements for each subsidiary.

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

Table – 21. Equity of IAH (PD-1.3.33 (a), (b) & (c))

The following table summarises the breakdown of IAH and return on IAH as of:

	31 December 2017 US$ '000
IAH - Banks	366,033
IAH - Non-banks	13,313,987
Profit equalisation reserve (PER) - Banks	162
Profit equalisation reserve (PER) - Non-banks	5,844
Investment risk reserve (IRR) - Banks	5,060
Investment risk reserve (IRR) - Non-banks	182,089
Cumulative changes in fair value attributable to IAH	8,934
	13,882,109

Table – 22. Return on average IAH (PD-1.3.33 (d))

	2017 %
Return on average IAH Equity	8.0
Return on average IAH Assets	5.2

Table – 23. Ratio by type of IAH (PD-1.3.33 (g))

	31 December 2017 %
IAH - Banks	3
IAH - Non-banks	97

The appropriation percentage of IAH into profit equalisation reserve and investment risk reserve varies between each of the Group's subsidiary based on market conditions and applicable rules and regulations.

Table – 24. IAH by Islamic financing product type (PD-1.3.33 (h))

The following table summarises the percentage of IAH financing for each type of Shari'a-compliant contract to total IAH financing as of:

	31 December 2017 %
Receivables	78
Mudaraba and Musharaka financing	11
Ijarah Muntahia Bittamleek	11

Table – 25. IAH by Counterparty Type (PD-1.3.33 (i))

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

	31 December 2017 %
Sovereign	10
Bank	10
Corporates	40
Retail	40

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

IAH Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing IAH and the IAHs' share of income is based on the terms and conditions of the related Mudaraba agreements. These Mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on IAH returns are analysed at the local level.

Table – 26. IAH by type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested, the actual allocation among various types of assets and the changes in the asset allocation in the last six months of the year ended:

	31 December 2017		
	Opening actual allocation US$ '000	Movement US$ '000	Closing actual allocation US$ '000
Cash and balances with banks	1,283,427	16,687	1,300,114
Receivables	8,966,377	(227,962)	8,738,415
Mudaraba and Musharaka financing	852,247	385,692	1,237,939
Investments	1,241,210	(5,778)	1,235,432
Ijarah Muntahia Bittamleek	1,320,333	(137,434)	1,182,899
Other assets	179,038	8,272	187,310
	13,842,632	39,477	13,882,109

Table – 27. Treatment of Assets financed by Equity of IAH (PD-1.3.33 (v))

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of:

	31 December 2017		
	RWA US$ '000	RWA for capital adequacy purposes US$ '000	Capital charges US$ '000
Type of Claims			
Claims on Sovereign	671,951	201,585	25,198
Claims on PSEs	6,099	1,830	229
Claims on MDBs	5,479	1,644	206
Claims on Banks	399,263	119,779	14,972
Claims on Corporates	4,189,085	1,256,726	157,091
Regulatory Retail Portfolio	1,915,843	574,753	71,844
Mortgage	1,583,046	474,914	59,364
Past due facilities	267,328	80,198	10,025
Investment in securities	56,420	16,926	2,116
Holding of Real Estates	534,414	160,324	20,041
Other Assets	379,943	113,983	14,248
	10,008,871	3,002,662	375,334

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

Table – 28. Historical data over past five years related to IAH (PD-1.3.41 (b),(c),(d),(e),(f) & (g))

	2017 US$ '000	2016 US$ '000	2015 US$ '000	2014 US$ '000	2013 US$ '000
The profit available for shareholders before smoothing	**174,243**	222,550	196,848	147,945	118,939
The profit available for IAH before smoothing	**1,084,420**	1,114,019	1,026,367	1,018,827	912,092
The profit available for sharing between IAH and shareholders before smoothing	**1,258,663**	1,336,569	1,223,215	1,166,772	1,031,031
The percentage of profit available for shareholders	**1%**	1%	1%	1%	1%
The percentage of profit available for IAH	**7%**	7%	6%	7%	6%
The profit available for shareholders after smoothing	**174,243**	222,550	196,848	147,945	118,939
The profit available for IAH after smoothing	**1,084,505**	1,117,965	1,029,375	1,017,908	909,410
The profit available for sharing between IAH and shareholders after smoothing	**1,258,748**	1,340,515	1,226,223	1,165,853	1,028,349
The percentage of profit available for shareholders	**1%**	1%	1%	1%	1%
The percentage of profit available for IAH	**7%**	7%	6%	7%	6%
Profit equalisation reserve					
Balance at 1 January	**6,091**	10,037	13,045	12,126	9,444
Amount apportioned from income allocable to equity of IAH	**910**	297	49	2,377	2,643
Amount used during the year	**(976)**	(3,580)	(1,229)	-	-
Foreign exchange translations	**(19)**	(663)	(1,828)	(1,458)	39
Balance at 31 December	**6,006**	6,091	10,037	13,045	12,126
Investment risk reserve					
Balance at 1 January	**176,583**	179,238	198,559	110,424	98,429
Amount appropriated to provision	**(8,069)**	7,324	(9,549)	(5,288)	(21,807)
Amount apportioned from income allocable to equity of IAH	**21,895**	1,057	10,711	102,728	48,634
Foreign exchange translations	**(3,260)**	(11,036)	(20,483)	(9,305)	(14,832)
Balance at 31 December	**187,149**	176,583	179,238	198,559	110,424

The market benchmark rates for Equity of IAH for the Group differ at the subsidiaries' level based on local market environments.

5.OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

Off-balance sheet equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

The Group as fund manager will manage and administer the investment account in a proper, diligent and efficient manner in accordance with applicable laws and local regulations.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;

(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and

(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

The range and measures of risks facing off balance sheet IAH are similar to those risks and measures for the relevant type of investment as disclosed by the Group.

5. OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

Table – 29. Off-balance sheet equity of IAH by Islamic Financing product type (PD-1.3.33 (h))

The following table summarises the percentage of financing for each type of Shari'a-compliant contract to total financing as of:

	31 December 2017 %
Receivables	31
Mudaraba and Musharaka financing	50
Ijarah Muntahia Bittamleek	19

Table – 30. Off-balance sheet equity of IAH by Counterparty Type (PD-1.3.33 (i))

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

	31 December 2017 %
Sovereign	7
Investment Firms	9
Bank	23
Corporates	21
Retail	40

Off-Balance Sheet Equity of IAH Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing IAH and off-balance sheet IAH's share of income is based on the terms and conditions of the related mudaraba agreements. These mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on off-balance sheet equity of investment accountholders' returns and local market benchmark return are analysed at the local level.

Table – 31. Historical return on off-balance sheet equity of IAH over the past five years (PD-1.3.35 (b))

	2017 US$ '000	2016 US$ '000	2015 US$ '000	2014 US$ '000	2013 US$ '000
Return on off-balance sheet equity of IAH net of expenses	42,467	43,826	30,426	28,201	22,512

Regulatory Capital Disclosures

At 31 December 2017

Composition of Capital Disclosure Requirements

	Statement of Financial Position as in published financial statements 31 December 2017 US$ '000	Consolidated PIRI data 31 December 2017 US$ '000	Reference
Assets			
Cash and balances at central banks	5,430,085	5,430,085	
Trading portfolio assets	271,096	271,096	
Murabaha	11,627,669	11,669,029	
Ijarah assets	1,856,018	1,856,018	
Ijarah installment receivables	68,620	68,632	
Mudarabah	1,400,598	1,403,873	
Musharakah	977,056	978,463	
Salam	188,035	188,035	
Istisna'a	116,726	116,731	
Held to maturity	2,250,552	2,250,552	
Available for sale financial investments	103,818	103,818	
Investment in real estate	211,157	211,157	
Prepayments, accrued income and other assets	383,041	363,310	
Current and deferred tax assets	-	19,731	H
Investments in associates and joint ventures	51,711	51,711	
Goodwill	61,340	61,340	F
Other intangible assets	25,497	25,497	G
Property, Plant and Equipment	430,192	430,192	
Total Assets	**25,453,211**	**25,499,270**	
Liabilities			
Deposits or placement from banks	1,322,470	1,322,470	
Customer accounts	5,465,433	5,465,433	
Accruals, deferred income and other liabilities	958,749	958,749	
Current and deferred tax liabilities	77,234	77,234	
Long term financing	1,236,555	1,236,555	
Total liabilities	**9,060,441**	**9,060,441**	
Equity of Investment Account Holders	**13,882,109**	**13,882,109**	
Shareholders' Equity			
Paid-in share capital	1,197,129	1,197,129	A
Share premium	18,644	18,644	C1
Retained earnings	590,949	590,949	B
Reserves	(466,517)	(507,470)	C2
Tier 1 Sukuk	400,000	400,000	L
Assets revaluation reserve - property, plant, and equipment	-	40,951	K2
Collective impairment provisions	-	46,061	K1
Non controlling interest	770,456	770,456	
NCI - CET1	-	547,670	D
NCI -AT1	-	40,498	I
NCI-T2	-	57,459	J
		124,829	
Total Shareholders' Equity	**2,510,661**	**2,556,720**	
Total Liabilities, URIA and shareholders' equity	**25,453,211**	**25,499,270**	

Regulatory Capital Disclosures

At 31 December 2017

Composition of Capital Disclosure Requirements

	31 December 2017 US$ '000	Amounts Subject To Pre-2015 Treatment	Reference
Common Equity Tier 1 capital: instruments and reserve			
1 Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1,197,129		A
2 Retained earnings	590,949		B
3 Accumulated other comprehensive income (and other reserves)	(488,826)		C1+C2
5 Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	547,670	770,456	D
6 Common Equity Tier 1 capital before regulatory adjustments	1,846,922		
Common Equity Tier 1 capital: regulatory adjustments			
8 Goodwill (net of related tax liability)	61,340		F
9 Other intangibles other than mortgage-servicing rights (net of related tax liability)	15,299	25,497	G
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	19,731		H
28 Total regulatory adjustments to Common equity Tier 1	96,370		
29 Common Equity Tier 1 capital (CET1)	1,750,552		
Additional Tier 1 capital: instrument			
30 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	400,000		L
34 Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	40,498		I
36 Additional Tier 1 capital before regulatory adjustments	440,498		
Additional Tier 1 capital: regulatory adjustments			
44 Additional Tier 1 capital (AT1)	440,498		
45 Tier 1 capital (T1 = CET1 + AT1)	2,191,050		
Tier 2 capital: instruments and provisions			
48 Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	57,459		J
50 Provisions & Assets revaluation reserve - property, plant, and equipment	87,012		K1+K2
51 Tier 2 capital before regulatory adjustments	144,471		
Tier 2 capital: regulatory adjustments			
58 Tier 2 capital (T2)	144,471		
59 Total capital (TC = T1 + T2)	2,335,521		
60 Total risk weighted assets	13,524,747		
Capital ratios			
61 Common Equity Tier 1 (as a percentage of risk weighted assets)	12.94%		
62 Tier 1 (as a percentage of risk weighted assets)	16.20%		
63 Total capital (as a percentage of risk weighted assets)	17.27%		
National minima including CCB (if different from Basel 3)			
69 CBB Common Equity Tier 1 minimum ratio	9.0%		
70 CBB Tier 1 minimum ratio	10.5%		
71 CBB total capital minimum ratio	12.5%		
Amounts below the thresholds for deduction (before risk weighting)			
73 Significant investments in the common stock of financials	9,916		
Applicable caps on the inclusion of provisions in Tier 2			
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	46,061		K1
77 Cap on inclusion of provisions in Tier 2 under standardized approach	126,838		

Regulatory Capital Disclosures
At 31 December 2017

Composition of Capital Disclosure Requirements

Main features of regulatory capital instruments

1	Issuer	Al Baraka Banking Group	ABG Sukuk Limited	Al Baraka Bank (Pakistan) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	BARKA - Bahrain Bourse & Nasdaq Dubai	Irish stock exchange	NA
3	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain	English law	All applicable laws and regulations of the Islamic Republic of Pakistan
	Regulatory treatment			
4	Transitional CBB rules	Common Equity Tier 1	Additional Tier 1	Tier 2
5	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1	Tier 2
6	Eligible at solo/group/group&solo	GROUP & SOLO	GROUP & SOLO	GROUP
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Shares	Mudaraba Sukuk	Unrestricted Mudaraba Sukuk
8	Amount recognized in regulatory capital (US$ in mil, as of most recent reporting date)	1,197	400	24
9	Par value of instrument	US$ 1	US$ 1,000	NA
10	Accounting classification	Shareholders' equity	Shareholders' equity	Liability - amortized cost
11	Original date of issuance	Various dates	31-May-17	2014
12	Perpetual or dated	Perpetual	Perpetual	Dated
13	Original maturity date	No maturity	No maturity	2021
14	Issuer call subject to prior supervisory approval	NA	Yes	No
15	Optional call date, contingent call dates and redemption amount	NA	31-May-22	NA
16	Subsequent call dates, if applicable	NA	Each periodic distribution date thereafter	NA
	Coupons / dividends			
17	Fixed or floating dividend/coupon	NA	Floating	Floating
18	Coupon rate and any related index	NA	7.875%, 5Y US$ mid-swap rate	KIBOR
19	Existence of a dividend stopper	NA	Yes	NA
20	Fully discretionary, partially discretionary or mandatory	NA	Fully discretionary	NA
21	Existence of step up or other incentive to redeem	NA	No	NA
22	Noncumulative or cumulative	Non cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	NA	Non convertible	NA
24	If convertible, conversion trigger (s)	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA
30	Write-down feature	No	Yes	No
31	If write-down, write-down trigger(s)	NA	A write-down of the Certificates (in whole or in part, as applicable) will take place if (i) the Obligor is instructed by the financial regulator to write-off or cancel such instruments on the grounds of non-viability or (ii) an immediate injection of capital is required, by way of an emergency intervention, without which the Obligor would become non-viable, as detailed in the Preliminary Prospectus.	NA
32	If write-down, full or partial	NA	Full	NA
33	If write-down, permanent or temporary	NA	Permanent	NA
34	If temporary write-down, description of write-up mechanism	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all depositors & creditors of the bank	Senior to only common equity shareholders	Subordinate to all liabilities
36	Non-compliant transitioned features	NA	NA	NA
37	If yes, specify non-compliant features	NA	NA	NA

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